

PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

# **From little things big things grow: Supporting Australian SMEs go global**

*Inquiry into access to free trade agreements by small and  
medium enterprises*

Joint Standing Committee on Foreign Affairs, Defence and Trade

February 2019  
CANBERRA

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# Foreword

Australia should be proud of its extraordinary track record as a free trading nation and its demonstrable capacity to conclude free trade agreements (FTAs).

In recent years we have enjoyed an extraordinary run of success in negotiating FTAs with important north Asian trading partners such as China, Japan, Korea, and more recently the Comprehensive and Progressive Agreement for Trans-Pacific Partnership between 11 countries including new trade partners such as Canada, Mexico and Peru.

While these FTAs have opened a host of new markets for Australian businesses, unfortunately small and medium enterprises (SMEs) have not enjoyed the same growth in exports to FTA markets as large enterprises.

Why is this so? Why have Australian SMEs not leveraged FTAs as much as larger companies and how can they better leverage FTAs in the future?

After 153 submissions and 16 public hearing roundtables across metropolitan and regional areas, I am confident that this report helps answer these questions and that our 10 recommendations are worthy of adoption by the Government.

I thank our Committee Chair Senator Ian Macdonald, my Sub-Committee Deputy Chair Graham Perrett, my fellow committee members and the hard working Secretariat. But most importantly I thank the owners and operators of the wonderful small and medium businesses who generously gave us their time and insight.

Mr Ted O'Brien MP

Chair



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# Terms of Reference

The Joint Standing Committee on Foreign Affairs, Defence and Trade shall examine opportunities and challenges facing small and medium Australian export-oriented businesses that seek to leverage free trade agreements for the export of goods and services with particular regard to:

- consideration of what products and services (e.g. inclusion and prioritisation) are negotiated in free trade agreements;
- awareness of, and accessibility to, free trade agreements;
- lessons learnt from attempts at leveraging free trade agreements, including barriers to implementation and success in fast-tracking export opportunities;
- role and effectiveness of support structures and networks in helping leverage free trade agreements;
- ongoing capacity building that will assist in creating opportunities and capturing more value from free trade agreements in the future; and
- any other related matters.





# Abbreviations

AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement
ABIE	Australian Business in Europe
ACBC	Australia China Business Council
ABS	Australian Bureau of Statistics
ACCI	Australian Chamber of Commerce and Industry
ACI-FTA	Australia-Chile Free Trade Agreement
ADIA	Australian Dental Industry Association
ADIC	Australian Dairy Industry Council
AEUFTA	Australia-European Union Free Trade Agreement
AFGC	Australian Food and Grocery Council
AGWA	Australia Grape and Wine Authority
AHPRA	Australian Health Practitioner Regulation Agency
AiG	Australian Industry Group
AMIC	Australian Meat Industry Council
ANZCERTA	Australia-New Zealand Closer Economic Relations
ARC	Australian Research Council
ASEAN	Association of Southeast Asian Nations
ASQA	Australian Skills Quality Authority
ASBFEO	Australian Small Business & Family Enterprise Ombudsman
ATBC	Australia-Taiwan Business Council

ATSE	Australian Academy of Technology and Engineering
AUKFTA	Australia-United Kingdom Free Trade Agreement
AUSFTA	Australia-United States Free Trade Agreement
Austrade	Australian Trade and Investment Commission
BDIA	British Dental Industry Association
CAP	Common Agricultural Policy
CE	European Conformity
ChAFTA	China-Australia Free Trade Agreement
CoO	Certificate of Origin
CPTPP	Comprehensive & Progressive Agreement for Trans-Pacific Partnership
DAWR	Department of Agriculture & Water Resources
DET	Department of Education and Training
DFAT	Department of Foreign Affairs and Trade
DIIS	Department of Industry, Innovation and Science
DJSB	Department of Jobs and Small Business
EC MRA	European Community-Australia Mutual Recognition Agreement
ECA	Export Council of Australia
EEC	European Economic Community
Efic	Export Finance and Insurance Corporation
EFTA MRA	European Free Trade Area Mutual Recognition Agreement
EMDG	Export Market Development Grants
EMEA	European, Middle East and Africa
EU	European Union
EU27	European Union with 27 member states
FCAI	Federal Chamber of Automotive Industries
FDI	Foreign Direct Investment
fDi Markets	Database of Foreign Direct Investment
FTA	Free Trade Agreement

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GABC	German Australian Business Council
GDP	Gross Domestic Product
GEi	Global Energy Institute
GIs	Geographical indications
GMC	General Medical Council
GTPA	Global Trade Professionals Alliance
GVC	Global Value Chains
IELTS	International English Language Test System
IACEPA	Indonesia-Aust. Comprehensive Economic Partnership Agreement
IP	Intellectual property
JAPEA	Japan-Australia Economic Partnership Agreement
KAFTA	Korea-Australia Free Trade Agreement
KTIPA	Korea Trade-Investment Promotion Agency
MAFTA	Malaysia- Australia Free Trade Agreement
MCA	Minerals Council of Australia
MFN	Most Favoured Nation
MHRA	Medicines and Healthcare products Regulatory Agency
MLA	Meat and Livestock Australia
MoP	Margin of Preference
MRA	Mutual Recognition Agreement
MSME	Micro, Small and Medium sized Enterprise
NFF	National Farmers' Federation
NIESR	National Institute of Economic and Social Research
NTB	Non-tariff Barrier
OECD	Organisation for Economic Cooperation and Development
PACER	Pacific Agreement on Closer Economic Relations (PACER) Plus
PAFTA	Peru--Australia Free Trade Agreement
PTA	Preferential Trade Agreement
PwC	PricewaterhouseCoopers Australia

R&D	Research and development
RCEP	Regional Comprehensive Economic Partnership
RDP	Regulatory data protection
RoO	Rules of Origin
SAFTA	Singapore-Australia Free Trade Agreement
SME	Small and Medium Enterprise
SME <sub>x</sub>	Small and Medium Exporter
TA	Tourism Australia
TAFTA	Thailand-Australia Free Trade Agreement
TCO	Tariff Concession Order
TEU	Treaty on European Union
TGA	Therapeutic Goods Administration
TRQ	Tariff rate quota
TTF	Tourism & Transport Forum
TTIP	Transatlantic Trade and Investment Partnership
TTP	Trans-Pacific Partnership
TWE	Treasury Wine Estates
UA	Universities Australia
UAE	United Arab Emirates
UK	United Kingdom
US	United States of America
VGBO	Victorian Government Business Office
WFA	Winemakers' Federation of Australia
WSTA	Wine & Spirits Trade Association
WTO	World Trade Organization

# List of Recommendations

## Recommendation 1

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- 2.25 The Committee recommends that the Australian Government continues to embrace an ambitious free trade agenda with an expanding network of high quality free trade agreements (FTAs), while acknowledging that FTAs are only one way of enabling international trade for Australian businesses.

## Recommendation 2

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- 2.89 The Committee recommends that the Australian Government seek to minimise non-tariff barriers to trade by identifying and addressing the range of non-tariff barriers that adversely affect trade outcomes for Australian small and medium enterprises (SMEs), and by:
- Providing more tailored advice from IP Australia, and business chambers or other qualified advisers, to SMEs to help them navigate complicated frameworks protecting intellectual property (IP) in overseas markets; and
  - Assessing the level of disclosure required for compliance purposes across different FTA jurisdictions with a view to helping SMEs avoid unnecessary IP disclosures and mitigate risks of IP leakage and theft.

## Recommendation 3

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- 3.147 The Committee recommends that the Australian Government seek to make free trade agreements (FTA) more relevant to Australian small and medium enterprises (SMEs) by:

- Including specific SME chapters or specific obligations to assist SMEs to access trade opportunities in future FTAs;
- Improving consistency between overlapping FTAs to reduce complexity for business users where the same exported product, for example, may receive different treatment depending on which trade agreement is applied; and
- Strengthening support for a robust system of Certificates of Origin that are accepted globally and for other reputable bodies to issue Certificates of Origin, as long as standards are not compromised.

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## **Recommendation 4**

4.140 The Committee recommends that the Australian Government trials a grant programme in selected regional areas for clusters of businesses that wish to collaborate in pursuit of export opportunities, anchored to either geographical provenance or specific sectors.

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## **Recommendation 5**

6.79 The Committee recommends that the Australian Government review the resourcing of agencies and programmes to assist Australian small and medium enterprises (SMEs) trade internationally as follows by:

- Reviewing the current funding arrangement for the Australian Trade and Investment Commission with a view to ensuring it is adequately funded to continue to deliver high quality services and in line with the recommendations of the report;
- Assessing the current funding arrangements for the Export Market Development Grant (EMDG) scheme to ensure it meets the growing demand and maintains the real value of individual grants under the EMDG scheme, including investigating strategies to better target the scheme towards high-growth SMEs; and
- Evaluating the potential for using improved digital technology to reduce the administrative burden of the Export Market Development Grants scheme for applicants.

## **Recommendation 6**

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6.156 The Committee recommends that the Australian Government makes its free trade agreements (FTA) more user-friendly for Australian small and medium enterprises (SMEs) by:

- Developing closer linkages between the Export Finance and Insurance Corporation (Efic) and municipal councils and local chambers of commerce so their networks can help promote Efic's services to Australian SMEs; and
- Establishing a 'single trade window' for SME exporters to guide them to education, products and services that meet their needs, and improve the access of SMEs to a centralised source of trade resources, from government agencies such as the Department of Foreign Affairs and Trade, Australian Trade and Investment Commission, Department of Home Affairs, Department of Agriculture and Water Resources, Export Finance and Insurance Corporation, Department of Industry, Innovation and Science, and the Department of Jobs and Small Business.

## **Recommendation 7**

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6.202 The Committee recommends that the Australian Government strengthen its Team Australia approach in target markets by:

- Supporting an increase in the number of smaller, non-Ministerial, industry-focused trade delegations with an emphasis on one-on-one business meetings to achieve more tangible trade outcomes; and
- Undertaking a joint study with state and territory governments of Australia's trade promotion efforts internationally, with a view to pursuing reforms that will ensure a better coordinated, unified and coherent approach for businesses, including SMEs, to better engage with all tiers of Australian government promoting Australia's commercial interests.

## Recommendation 8

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6.211 The Committee recommends that the Australian Government adopts a more holistic approach to encouraging Australian small and medium enterprises (SMEs) to trade internationally and utilise free trade agreements (FTA) by:

- Targeting service delivery of FTA awareness and education programmes to SMEs based in regional areas by matching the content of seminars and workshops to the specific economic profile of the regions, drawing upon local success stories and providing direct advice about market access and promotion relevant to the key industries of those regions;
- Inviting the active participation of industry representative bodies, such as those representing customs agents and freight forwarders, in FTA awareness and education programs to educate SMEs about the export services their members provide;
- Strengthening capacity development of SMEs so they become more import/export ready, including knowing how to assess destinations and business partners, and using technology to support international engagement and trading activities; and
- Adopting a tiered pricing structure for service delivery by the Australian Trade and Investment Commission and the departments of Agriculture and Water Resources and Home Affairs that takes into account business size and export volumes.



## **Recommendation 9**

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7.29 The Committee recommends that the Australian Government makes better use of data and technology for identifying and helping Australian small and medium enterprises (SMEs) capture international trade opportunities by:

- Embracing e-commerce as a key enabler of trade and including e-commerce as a key feature in future FTAs;
- Delivering simplified, user-friendly digital resources and trade technologies to assist SMEs by making it easier to find the export information required for each trade agreement;
- Assessing how trade consultant advisory agencies, business chambers and industry representative bodies can provide greater assistance to SMEs in collaboration with governments, including consideration of joint pilots to build the readiness and technological capacity of SMEs; and
- Broadening the base and deepening the granularity of export data that is collected, analysed and published so it can better guide exporters and policy makers.

## **Recommendation 10**

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7.68 The Committee recommends that the Australian Government commissions an audit into the untapped human capacity of Australian nationals living and working overseas and Australia's multi-ethnic diasporas living and working in Australia and their related chambers and associations with a view to formulating a strategy to unlock that capacity to advance Australia's interests, including opportunities for Australian small and medium enterprises.



# 1. Introduction

1.1 On 15 February 2018, the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) resolved pursuant to paragraph two of the Committee's resolution of appointment to undertake an inquiry into support provided to access free trade agreements by small and medium enterprises (SMEs) as referred to on page 49 of the Department of Foreign Affairs and Trade Annual Report for 2016-17. On 15 February 2018, the JSCFADT referred the inquiry to its Trade Sub-Committee to undertake. The terms of reference of the inquiry were to report on:

1.2 ...opportunities and challenges facing small and medium Australian export-oriented businesses that seek to leverage free trade agreements for the export of goods and services [with] particular regard to:

- consideration of what products and services (e.g. inclusion and prioritisation) are negotiated in free trade agreements;
- awareness of, and accessibility to, free trade agreements;
- lessons learnt from attempts at leveraging free trade agreements, including barriers to implementation and success in fast-tracking export opportunities;
- role and effectiveness of support structures and networks in helping leverage free trade agreements;
- ongoing capacity building that will assist in creating opportunities and capturing more value from free trade agreements in the future; and
- any other related matters.

## Conduct of the inquiry

1.3 The Committee invited relevant governments, companies, small businesses, family enterprises and organisations to make a submission. The Committee

had received 111 oral submissions from roundtable public hearings across much of Australia as listed in Appendix A. The Committee had received 42 submissions and published 41 submissions as listed in Appendix B. These written submissions are available from the Committee's website.<sup>1</sup>

- 1.4 Sixteen public hearings were conducted in capital cities and regional centres by the Committee, mostly in a roundtable format, in Canberra, Brisbane, Sunshine Coast, Townsville, Melbourne, Griffith, Newcastle, Sydney and Adelaide. The dates and locations of the hearings, together with the names of witnesses who appeared before the Committee are at Appendix D. The transcripts of the oral submissions at these hearings are available from the Committee's website.<sup>2</sup>

**Figure 1.1** Participants at a roundtable in Sunnybank, Brisbane, Queensland



*Committee members discuss FTA issues with SMEs at a roundtable in Sunnybank, Queensland*

<sup>1</sup> See:

[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Foreign\\_Affairs\\_Defence\\_and\\_Trade/Freetradeagreement](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Foreign_Affairs_Defence_and_Trade/Freetradeagreement)

<sup>2</sup> See:

[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Foreign\\_Affairs\\_Defence\\_and\\_Trade/Freetradeagreement](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Foreign_Affairs_Defence_and_Trade/Freetradeagreement)

## Geographical scope of the inquiry

- 1.5 The primary geographical focus of the inquiry has been on the relationship of Australian small and medium sized enterprises with the trading opportunities offered by the 16 countries or groups of countries Australia has free trade agreements with at the time of publication, also the four FTAs concluded but not yet in force, the eight FTAs under negotiation and a prospective FTA negotiation with the United Kingdom.<sup>3</sup> These partner countries include close neighbours such as New Zealand and the Association of Southeast Asian Nations (ASEAN), those across the Pacific such as the United States of America and Chile and more recently FTAs with north Asian countries of China, Japan and Korea.

## Definition of SMEs

- 1.6 Definitions of SMEs can vary between government agencies with the Australian Bureau of Statistics defining SMEs as businesses with fewer than 200 employees and annual turnover and exports of both less than A\$20 million for the purposes of its recent export data collection.<sup>4</sup>
- 1.7 The Export Finance and Insurance Corporation define an SME as an entity with annual turnover less than A\$150m. This definition was modelled on the breakdown employed by trade finance teams in commercial banks.<sup>5</sup>
- The distribution of Efic's SME signings is heavily weighted towards the lower end of the turnover scale, with the bulk of SME's supported falling within the A\$10-A\$60m annual turnover band and with less than 100 employees.<sup>6</sup>
- 1.8 The Australian Industry Group submitted its definition of small and medium sized exporters as SMEx with export revenues of between \$250,000 and \$50 million, and micro-exporters having export revenues of less than \$250,000, and large exporters with export revenues of more than \$50 million.<sup>7</sup>

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<sup>3</sup> See: <https://dfat.gov.au/trade/agreements/Pages/trade-agreements.aspx>

<sup>4</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 5.

<sup>5</sup> Export Finance and Insurance Corporation, 2014 submission to Australian Government's Financial Services Inquiry, p. 8.

<sup>6</sup> Export Finance and Insurance Corporation, 2014 submission to Australian Government's Financial Services Inquiry, p. 8.

<sup>7</sup> Australian Industry Group, *Submission 34*, p. 17.

- 1.9 According to the German Australian Business Council, the European Union defines an SME to be a company with less than 250 employees and either turnover of less than EUR 50 million per annum or a balance sheet of less than EUR 43 million.<sup>8</sup>

For many practical purposes, the exact definition is unimportant, since the issues faced are similar for business of this size and turnover. Many businesses of this size, at least in Germany, may have some experience in exporting but do not have the facilities or staff to monitor extensively changes in domestic regulations in their export markets.<sup>9</sup>

- 1.10 The Global Trade Professionals Alliance (GTPA) acknowledged the definition of an micro, small and medium sized enterprises (MSMEs) varies significantly across jurisdictions, to the extent that a “medium sized enterprise in one market could include companies generating multiple hundreds of millions in annual turnover, whilst in another market, is likely to be a fraction of that in size and economic value”.<sup>10</sup>

- 1.11 GPTA sees merit in the Government finding a common reference point for definition of SMEs being achieved.<sup>11</sup>

...even an agreed range for each category, based on annual revenue or number of employees, could assist in focusing efforts and solution-development in local, national and regional economies, where the greatest positive (and most needed) impact can be generated.<sup>12</sup>

- 1.12 The Department of Industry, Innovation & Science (DIIS) stated there are “no internationally comparable statistics available to benchmark this Australian SME goods exporting share against, given differences in the definition of exporters, the industries in scope as well as the definition of SMEs”<sup>13</sup>.

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<sup>8</sup> German Australian Business Council, *Submission 36*, p. 2.

<sup>9</sup> German Australian Business Council, *Submission 36*, p. 2.

<sup>10</sup> Global Trade Professionals Alliance, *Submission 22*, p. 4.

<sup>11</sup> Global Trade Professionals Alliance, *Submission 22*, p. 4.

<sup>12</sup> Global Trade Professionals Alliance, *Submission 22*, p. 4.

<sup>13</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.1*, p. 1.

For example, the OECD defines SMEs as businesses with less than 250 persons employed. OECD publications do not include data for Australia on SMEs and international trade.<sup>14</sup>

The latest available OECD data for 2014 indicate that there was a large variability in the SME exporting share (defined as customs-based trade in goods for businesses with less than 250 employees as a ratio of the total number of enterprises) between countries, ranging from 10 per cent to 40 per cent...Differences between countries can be ascribed to a number of factors, including the size of the country (internal market), comparative advantages and trade barriers.<sup>15</sup>

## Australian Bureau of Statistics data on SME exporters

1.13 The Australian Chamber of Commerce and Industry used the Australian Bureau of Statistics report 5368.0.55.0061 that details the Characteristics of Australian Exporters to outline how many businesses export. The ACCI detailed the numbers using 2015-16 data as the latest year available:<sup>16</sup>

- The total number of exporters of goods and/or services in 2015-16 was 53,350, an increase of 2,454 (5 per cent) from 2014-15.
- The number of goods exporters increased by 2,611 (5 per cent) and the number of services exporters decreased by 136 (-4 per cent).
- The total value of goods and services exports decreased by \$6b to \$312b (-2 per cent) from 2014-15.
- The decrease in the value of goods exports was \$11b (-4 per cent) to \$243b. This was partially offset by an increase in the value of services exports, up \$5b (9 per cent) to \$68b.
- The increase in the number of exporters was across the board, except for large goods exporters (between \$50m and \$100m) and services exporters.

1.14 The departments of Industry, Innovation & Science (DIIS) and of Jobs & Small Business (DJSB) submitted the contribution of Australian SMEs, as businesses with less than 200 employees, to exports is disproportionately low.<sup>17</sup>

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<sup>14</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.1*, p. 1.

<sup>15</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.1*, p. 1.

<sup>16</sup> Australian Chamber of Commerce and Industry, *Submission 28*, pp. 5-6.

<sup>17</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 5.

In 2015-16, SMEs represented 99 per cent of Australian employing businesses, yet their contribution to the value of exports was only about 6 per cent.<sup>18</sup>

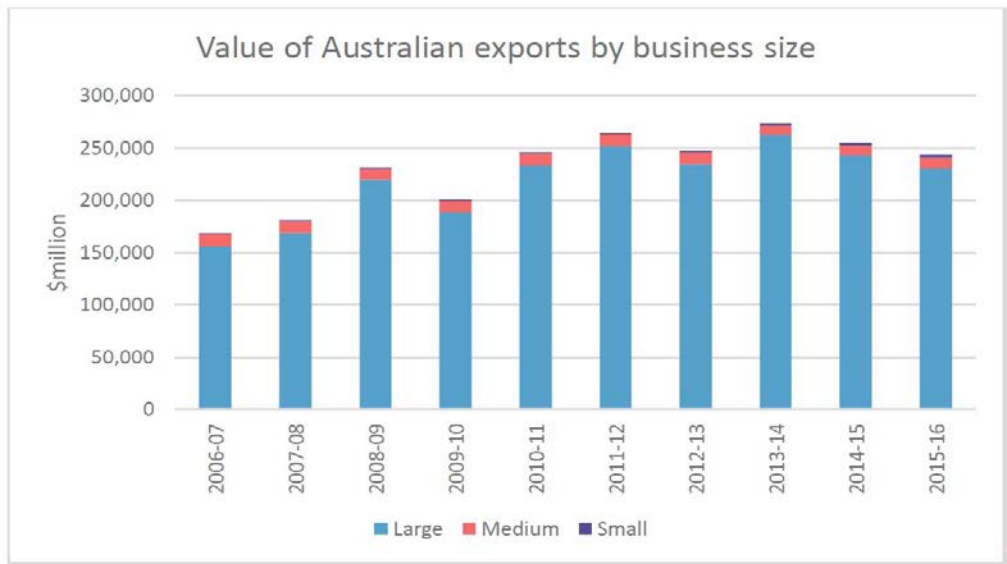
1.15 According to the latest available ABS statistics in 2016-17, SMEs still accounted for “99.5 per cent of employing businesses in Australia”<sup>19</sup>.

There were 45,528 goods exporting SMEs in 2016-17, which accounted for 5.3 per cent of all employing SMEs in Australia.<sup>20</sup>

1.16 Using the ABS Characteristics of Australian Exporters data, the DIIS and DJSB described the domination of large exporters compared to SMEs.

Over the last decade, the value of SMEs’ exports have remained stagnant at around \$12 billion per year, while the value of exports of large businesses have increased by 48 per cent between 2006-07 and 2015-16 from \$155 billion to \$231 billion. In most industry sectors (e.g. agriculture, mining and manufacturing) large businesses have driven export growth.<sup>21</sup>

**Figure 1.2 Value of Australian exports by business size**



Source: Submission 31 Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, and ABS (various years) Characteristics of Australian Exporters, Cat. No 5368.0.55.006.

<sup>18</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 5.  
<sup>19</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.1*, p. 1.  
<sup>20</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.1*, p. 1.  
<sup>21</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, pp. 5-6.

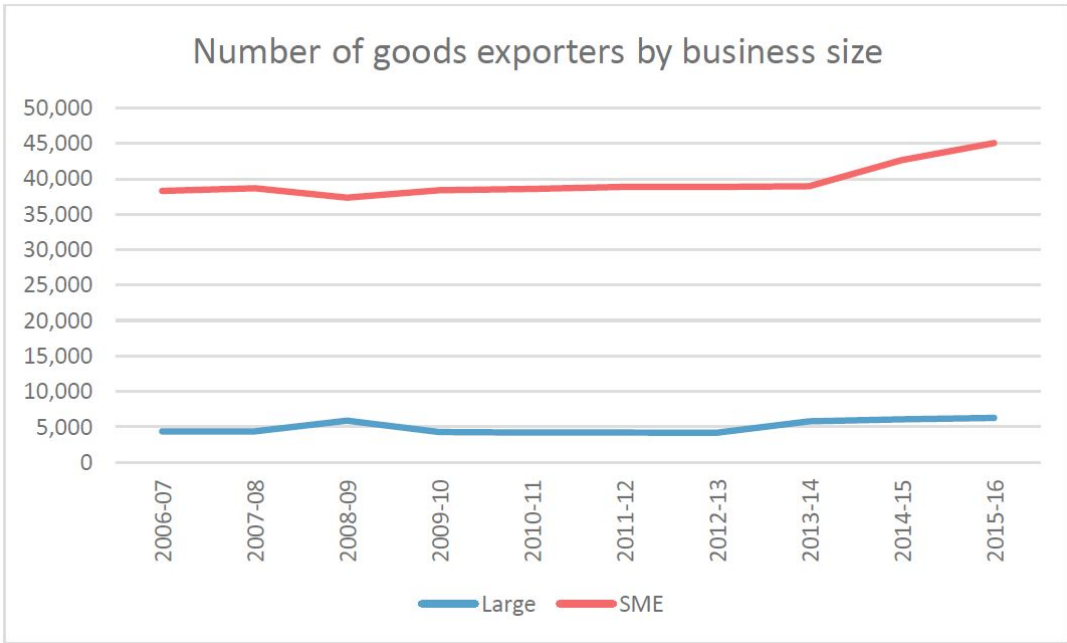


1.17 More broadly, the DIIS and DJSB explained using ABS data that the number of Australian businesses exporting has only marginally grown over the past decade.<sup>22</sup>

Again, despite representing 99 per cent of Australian employing businesses, SMEs only accounted for around 88 per cent of goods exporters in 2015-16.<sup>23</sup>

1.18 DIIS and DJSB believe this may be attributable to several factors including, but not limited to, the broader challenges faced by business in the wake of the global financial crisis and SMEs “not having an interest in or the capacity to export”.<sup>24</sup>

**Figure 1.3 Number of goods exporters by business size**



Source: Submission 31 Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, and ABS (various years) *Characteristics of Australian Exporters*, Cat. No 5368.0.55.006.

<sup>22</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 6.

<sup>23</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 6.

<sup>24</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 6.

- 1.19 DFAT outlined that many SMEs may participate in exporting without being directly involved or appearing in ABS data. Instead, these SMEs can be involved in the production of a good or service that is exported by others.<sup>25</sup>

A honey producer who sells to a local co-operative, which then exports to an Indonesian food manufacturer, is participating in a global value chain. A café where Chinese and American tourists eat breakfast is exporting hospitality services.<sup>26</sup>

- 1.20 The Department of Industry, Innovation & Science (DIIS) submitted that there is “currently no data sources available to definitively benchmark the number of Australian SMEs that export by export market”.<sup>27</sup>

The Australian Government statistics that are available on the characteristics of Australian exporters do not provide information on exports from SMEs by country of destination. Further, the available statistics do not reflect SME export information with high levels of accuracy, given the complexity of export business structures and export reporting, as well as the difficulty in reflecting the value of SMEs that sell goods to large Australian businesses who then undertake the exporting function.<sup>28</sup>

## SMEs exporting goods and utilising FTAs

- 1.21 According to the latest available ABS statistics<sup>29</sup>, DIIS submitted there were 45,528 goods exporting SMEs in 2016-17, which accounted for 87.6 per cent of all firms that exported goods from Australia. SMEs accounted for AU \$12.9 billion or 4.4 per cent of Australia’s global trade in goods, while large businesses accounted for AUD \$278 billion.<sup>30</sup>
- 1.22 Using ABS data, DIIS submitted that SMEs account for 99 per cent of Australian employing businesses, yet their contribution to Australia’s exports is disproportionately low.<sup>31</sup>

<sup>25</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>26</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>27</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.2*, p. 1.

<sup>28</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.2*, p. 1.

<sup>29</sup> ABS Cat. No. 8165.0, ABS Cat. No. 5368.0.55.006, Table 5.

<sup>30</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.2*, p. 1.

<sup>31</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 14.

While many of these businesses may not have an immediate interest in entering foreign markets, Australia's FTAs provide considerable opportunity for SMEs to grow their business and, in the process, provide an even greater contribution to job creation and economic growth.<sup>32</sup>

- 1.23 FTAs can assist firms to increase their exports; import technology and equipment required for domestic production at a lower cost; tap into new investment opportunities; and expand their client bases.<sup>33</sup>

However, SMEs tend to face greater challenges than larger businesses in entering foreign markets and taking advantage of FTAs.<sup>34</sup>

- 1.24 ABS data, according to DFAT, showed that around 51,000 or 2.4 per cent of all Australian businesses directly engaged in exporting goods in 2015-16.<sup>35</sup>

While SMEs made up 87.8 per cent of Australia's total number of goods exporters, they represented just 5.3 per cent to Australia's total value of goods exports in 2015-16 (up from 3.9 per cent in 2013-14).<sup>36</sup>

The SME share of 2015-16 exports is 10.4 per cent if the mining industry is excluded from the analysis.<sup>37</sup>

- 1.25 DFAT explained there was an upwards trend in SME engagement in exporting, and it expects the Government's initiatives on e-commerce and active trade negotiation and promotion to generate further SME export growth.

Although SME exporters can transition over time to become large enterprises, it is clear from ABS data that the overall value of SME goods exports is low in comparison to other enterprises. There is also significant turnover among SME exporters – they are more likely to export less frequently (or just once or twice), in smaller volumes of lower value.<sup>38</sup>

- 1.26 The Department of Industry, Innovation & Science (DIIS) highlighted the latest OECD data from the Future of Business Survey, a joint Facebook-

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<sup>32</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 14.

<sup>33</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 14.

<sup>34</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 14.

<sup>35</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 3.

<sup>36</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 3.

<sup>37</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 3.

<sup>38</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, pp. 3-4.

OECD-World Bank survey of SMEs (defined as businesses with less than 250 employees with a digital presence). DIIS noted these survey results could also be impacted by the representativeness of surveyed SMEs given that it only covers those firms with a Facebook presence.<sup>39</sup>

...that was conducted over the period March to May 2017, indicate that 9.9 per cent of Australian SMEs were exporting. This was slightly below the 34-country average of 10.4 per cent, but higher than countries such as Canada, the United States and Japan. As indicated above, there is a wide variation in the share of SMEs that are exporting and this is also reflected in this survey's findings, with the exporting share ranging from 3.7 per cent for Brazil to 20.7 per cent for Korea. Note that in addition to the factors highlighted above that can explain differences in the share of exporting businesses between countries...<sup>40</sup>

## **SMEs exporting services**

- 1.27 Around 73 per cent of Australia's GDP in 2017 came from the services sector, according to DFAT's analysis based on ABS Catalogue 5206.0 Australian National Accounts (December quarter 2017).<sup>41</sup>
- 1.28 DFAT believed Australia's relative geographic isolation can make it more difficult for Australia's SMEs to export their services.<sup>42</sup>

This makes international comparisons of Australia's SME export intensity difficult – EU SMEs, for example, can easily move across borders to supply services.<sup>43</sup>

## **Australia's free trade agreement agenda and SMEs**

- 1.29 DFAT jointly submitted with portfolio agencies the Australian Trade and Investment Commission (Austrade) and the Export Finance and Insurance Corporation (Efic) that the Australian Government has an ambitious trade and investment agenda that is providing substantial new opportunities for

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<sup>39</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.1*, p. 1.

<sup>40</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.1*, p. 1.

<sup>41</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>42</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>43</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

Australian SMEs and other businesses. This agenda includes the active negotiation, implementation and review of free trade agreements.<sup>44</sup>

FTAs and Government programs can help businesses reach various milestones, but are just one element of an SME's journey to becoming a successful exporter.<sup>45</sup>

1.30 Australia, as of November 2018, has 10 FTAs in force with 16 countries.

Around two-thirds of Australia's current trade is with FTA partner countries.<sup>46</sup>

1.31 FTAs also benefit Australian SMEs generally, according to DFAT, by:<sup>47</sup>

- creating a competitive edge for their goods and services exports, including in ecommerce;
- providing access to a wider range of more competitively priced imports;
- deepening their engagement in global value chains;
- safeguarding against protectionist tendencies in other countries;
- improving access to overseas investment capital and new technologies; and
- providing new growth and employment opportunities.

## Free trade agreements in force

1.32 The 16 countries or groups of countries Australia has FTAs with, listed with the date they entered into force

- Australia-New Zealand (ANZCERTA or CER) — 1 January 1983
- Singapore-Australia (SAFTA) — 28 July 2003
- Australia-United States (AUSFTA) — 1 January 2005
- Thailand-Australia (TAFTA) — 1 January 2005
- Australia-Chile (ACI-FTA) — 6 March 2009
- ASEAN-Australia-New Zealand (AANZFTA) — 1 January 2010 for eight countries: Australia, New Zealand, Brunei, Burma, Malaysia, the Philippines, Singapore and Vietnam. For Thailand: 12 March 2010. For Laos: 1 January 2011. For Cambodia: 4 January 2011. For Indonesia: 10 January 2012

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<sup>44</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 1.

<sup>45</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 3.

<sup>46</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 1.

<sup>47</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 1.

- Malaysia-Australia (MAFTA) — 1 January 2013
- Korea-Australia (KAFTA) — 12 December 2014
- Japan-Australia (JAIPA) — 15 January 2015
- China-Australia (ChAFTA) — 20 December 2015
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) — 30 December 2018

### **FTAs concluded but not yet in force**

- Australia-Hong Kong Free Trade Agreement
- Indonesia-Australia Comprehensive Economic Partnership Agreement
- Peru-Australia Free Trade Agreement
- Pacific Agreement on Closer Economic Relations (PACER) Plus

### **FTAs under negotiation**

- Australia-European Union Free Trade Agreement
- Australia-Gulf Cooperation Council (GCC) Free Trade Agreement
- Australia-India Comprehensive Economic Cooperation Agreement
- Environmental Goods Agreement
- Pacific Alliance Free Trade Agreement
- Regional Comprehensive Economic Partnership
- Trade in Services Agreement

### **Prospective FTA negotiations**

- Australia-United Kingdom Free Trade Agreement

## **Government aim to support SMEs benefit from FTAs**

1.33 The departments of Industry, Innovation & Science (DIIS) and of Jobs & Small Business (DJSB) submitted that smaller firms generally face more challenges in incurring the initial costs for entering foreign markets (such as for marketing, dealing with regulatory compliance, establishing commercial relationships with buyers, product customisation, etc.), reflecting that scale and age are important considerations for firms engaging in exporting activities.<sup>48</sup>

However, some small firms increasingly overcome these challenges by capitalising on online tools and digital platforms.<sup>49</sup>

<sup>48</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 6.

<sup>49</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 6.

- 1.34 Research by DIIS' Office of the Chief Economist points to some examples including Australia's around 3,000 'born-global' firms in 2013-14 (around 5 per cent of all exporters) that started exporting since birth.<sup>50</sup>

Employment in these businesses varied between 1 and 3 workers, illustrating that many born-global firms were not big employers.<sup>51</sup>

- 1.35 DFAT, Austrade and Efic all claimed their portfolio provide significant support to SMEs to access benefits under the FTAs.

While Austrade provides advice and services to all eligible Australian businesses, its support is mainly targeted at around 10,000 SMEs.<sup>52</sup>

- 1.36 Austrade highlighted four of its five purposes from its 2017-18 Corporate Plan (developing international markets, promoting international education, winning productive foreign investment and strengthening Australia's tourism industry) relate to SMEs.<sup>53</sup>

FTA accessibility is a prominent element of Austrade's service delivery. In particular, the TradeStart network provides local export assistance and other Austrade services across regional Australia, including advice on unlocking the benefits of Australia's FTAs. SMEs who are or aspire to become exporters are also the primary focus of Efic's operations.<sup>54</sup>

- 1.37 After the entry into force of FTAs, DFAT and Austrade submitted they both engage in a range of advocacy and outreach efforts to ensure SMEs and other businesses understand the benefits and requirements of FTAs. This includes information seminars, in-market activities, hotlines, mailboxes, publications and online resources, including the Department's FTA Portal.<sup>55</sup>

DFAT and Austrade actively leverage the TradeStart network domestically as well as our international network to support SMEs and other businesses in overseas markets, particularly on resolving market access issues and addressing non-tariff measures.<sup>56</sup>

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<sup>50</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 6.

<sup>51</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 6.

<sup>52</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 2.

<sup>53</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 2.

<sup>54</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 2.

<sup>55</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 2.

<sup>56</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 2.

- 1.38 DFAT's outlined its economic diplomacy agenda further aims to support Australia's economic and commercial interests, including with respect to SMEs. Launched in 2014, the framework of DFAT's economic diplomacy agenda looks to provide insights with businesses on foreign markets and global economic conditions.<sup>57</sup>

It helps Australian businesses to navigate political and other risks and, in consultation with Austrade, assists in the identification of commercial opportunities in unfamiliar business and regulatory environments. In partnership with businesses, economic diplomacy seeks to open up commercial opportunities and demystify the international economic landscape.<sup>58</sup>

- 1.39 DFAT claimed it also supports SMEs through its engagement in multilateral fora, such as the World Trade Organization (WTO), the G20, APEC and the Organization for Economic Cooperation and Development (OECD). Recent successes include the WTO's Trade Facilitation Agreement (TFA), which aims to reduce administrative costs associated with exporting and importing.<sup>59</sup>
- 1.40 Increasing SMEs' engagement in trade is part of a whole-of-Government approach, according to DFAT. The Department of Industry, Innovation and Science, the Department of Agriculture and Water Resources, the Department of Jobs and Small Business, the Department of Home Affairs and other agencies share responsibility for supporting SMEs through their policies and programs.<sup>60</sup>

## Overview of the inquiry

- 1.41 The Committee wanted to understand the opportunities and challenges faced by SMEs when seeking to capitalise on free trade agreements to drive exports of their goods and services into Australia's partner countries. With Australia signing trade agreements with Peru, the final Comprehensive and Progressive Agreement for Trans-Pacific Partnership with 11 Pacific-rim countries including new trading partners such as Canada and Mexico, and also a comprehensive economic partnership with Indonesia.

<sup>57</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 2.

<sup>58</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 2.

<sup>59</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 3.

<sup>60</sup> Department of Foreign Affairs and Trade Austrade & Efic, *Submission 12*, p. 3.



- 1.42 Dr Greg Whiteley, the Executive Chairman of the Whiteley Corporation in NSW welcomed the opportunity to raise trade issues with the members of the Trade Sub-Committee at a roundtable at the University of Newcastle.<sup>61</sup>

I actually want to change tack a little bit and just compliment members for coming here and actually inquiring. It's a breath of fresh air. One of the problems we have is getting access to members of parliament for this sort of process. Normally, we have to go through a bureaucracy. And so much filtration goes on that by the time members get briefing sheets the actual flavour of things has been lost. So I would thoroughly endorse this as a regular event. If you're going to bring these things in that affect industry so grossly, having direct consultation can't be overstated for its value and importance. I thank you all for doing it and for allowing us to attend and make submissions.<sup>62</sup>

- 1.43 The Committee is focused on the utilisation of free trade agreements by Australian businesses seeking new markets for their goods and services overseas. According to the Australian Chamber of Commerce and Industry, it is important to recognise that the benefits of free trade to Australian businesses are about more than just increased exports.<sup>63</sup>

While boosting exports increases income and importing goods, services and IP benefits Australian businesses by lowering costs, which can boost profitability or increase production by improving competitiveness, and providing opportunities to participate in the production of different goods and services through 'global supply chains'. Free flow of investment both in and out of Australia also provides access to new capital for domestic businesses, income generating opportunities overseas, and cutting edge business practices.<sup>64</sup>

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<sup>61</sup> Dr Greg Whiteley, *Committee Hansard*, 1 August 2018, p. 37.

<sup>62</sup> Dr Greg Whiteley, *Committee Hansard*, 1 August 2018, p. 37.

<sup>63</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 5.

<sup>64</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 5.



## 2. SMEs' experiences, challenges and opportunities with FTAs

### SMEs' experiences with FTAs and most targeted markets

2.1 The Department of Industry, Innovation & Science (DIIS) drew on ABS data<sup>1</sup> to show that Australia's Free Trade Agreement (FTA) network covers most of the markets that are targeted by Australian exporters.<sup>2</sup>

Data on the number of exporters by export market shows that Australia:<sup>3</sup>

- has in force FTAs with nine of the top fifteen export markets for goods by number of exporters;
- has a concluded but not yet in force FTA with an additional one of the top fifteen export markets;
- has trade and economic cooperation agreements with an additional two of the top fifteen export markets; and,
- is undertaking FTA negotiations with the three remaining countries (see Figure 2.1 for more details).

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<sup>1</sup> ABS Cat. No. 8165.0, ABS Cat. No. 5368.0.55.006, Table 9.

<sup>2</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.2*, p. 1.

<sup>3</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.2*, p. 1.

**Figure 2.1 Top 15 export markets for goods in 2016-17: By number of exporters**

Figure 2.1 Top 15 export markets for goods in 2016-17: By number of exporters				
	Market	Number of exporters	% share of total exporters to each market	Agreement in place
1	New Zealand	18,809	14.07%	ANZCERTA, AANZFTA, CPTPP, RCEP under negotiation
2	United States of America	11,200	8.38%	AUSFTA
3	China	7,214	5.40%	ChAFTA, RCEP under negotiation
4	Hong Kong	6,588	4.93%	A-HK FTA negotiations concluded, awaiting formal signature and ratification
5	Singapore	6,561	4.91%	SAFTA, AANZFTA, CPTPP, RCEP under negotiation
6	United Kingdom	5,975	4.47%	EU FTA under negotiation, A-UK FTA prospective negotiation
7	Papua New Guinea	4,466	3.34%	SPARTECA (trade and economic cooperation agreement)
8	Malaysia	3,777	2.83%	MAFTA, AANZFTA, RCEP under negotiation
9	Japan	3,387	2.53%	JAPEA, CPTPP, RCEP under negotiation
10	Fiji	3,377	2.53%	SPARTECA (trade and economic cooperation agreement)
11	Germany	3,040	2.27%	EU FTA under negotiation
12	Thailand	2,980	2.23%	TAFTA, AANZFTA, RCEP under negotiation
13	Canada	2,647	1.98%	CPTPP
14	United Arab Emirates	2,594	1.94%	GCC FTA under negotiation
15	Republic of Korea	2,563	1.92%	KAFTA, RCEP under negotiation
Source: ABS Cat. No. 8165.0, ABS Cat. No. 5368.0.55.006, Table 9. Note that exporters can sell to multiple markets, so the total of SMEs exporting based on each market would be greater than the 45,528 total goods exporting SMEs.				

Sources: Dept. of Industry, Innovation & Science, *Supplementary submission 31.2*, p. 3 & ABS.

## Australian exporters' most targeted markets

2.2 Australia's FTA network not only covers the key markets that are most targeted by Australian exporters, but also covers the majority of Australia's largest markets by value of exports. ABS data shows that Australia:<sup>4</sup>

- has in force FTAs with ten of the top fifteen of export markets by value of Australian exports;

<sup>4</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.2*, p. 2.

- has a concluded but not yet in force FTA with an additional one of the top fifteen export markets; and,
- is undertaking FTA negotiations with three of the remaining countries (see Figure 2.2).

**Figure 2.2 Top 15 export markets for goods in 2016-17: By value of exports**

Figure 2.2: Top 15 export markets for goods in 2016-17: By value of exports				
	Market	Value of exports (AU\$ million)	% share of total global exports	Agreement in place
1	China	94,997	32.66%	ChAFTA, RCEP under negotiation
2	Japan	41,364	14.22%	JAEPa, CPTPP, RCEP under negotiation
3	Republic of Korea	19,567	6.72%	KAFTA, RCEP under negotiation
4	India	15,013	5.16%	RCEP under negotiation, IA-CECA under negotiation
5	Hong Kong	12,859	4.42%	A-HK FTA negotiations concluded, awaiting formal signature and ratification
6	United States of America	11,841	4.07%	AUSFTA
7	New Zealand	8,759	3.01%	ANZCERTA, AANZFTA, CPTPP, RCEP under negotiation
8	Taiwan	8,175	2.81%	No FTA
9	United Kingdom	7,194	2.47%	EU FTA under negotiation, UK FTA prospective negotiation
10	Indonesia	6,084	2.09%	AANZFTA, IA-CEPA negotiations substantially concluded, awaiting formal signature and ratification, RCEP under negotiation
11	Singapore	5,849	2.01%	SAFTA, AANZFTA, CPTPP, RCEP under negotiation
12	Malaysia	5,418	1.86%	MAFTA, AANZFTA, RCEP under negotiation
13	Vietnam	4,243	1.46%	AANZFTA, CPTPP, RCEP under negotiation
14	Thailand	3,889	1.34%	TAFTA, AANZFTA, RCEP under negotiation
15	United Arab Emirates	3,103	1.07%	GCC FTA under negotiation
Source: ABS Cat. No. 8165.0, ABS Cat. No. 5368.0.55.006, Table 9.				

Sources: Dept. of Industry, Innovation & Science, Supplementary submission 31.2, p. 4 & ABS.

2.3 DIIS submitted that ABS data shows that Australia's FTA network covers countries to which Australia exported AU \$207 billion in goods in 2016-17,

which equates to 71.21 per cent of Australia's total global exports for that year.<sup>5</sup>

The Australian Government is committed to expanding our network of agreements to ensure that by 2020 we have FTAs with countries that account for over 80 per cent of Australia's trade . Key priorities include concluding the Indonesia-Australia Comprehensive Economic Partnership (IA-CEPA) and negotiating an ambitious FTA with the European Union (the EU-FTA), the world's second-largest economy as a bloc.<sup>6</sup>

- 2.4 Even for businesses which do not necessarily understand all the nuances of Australia's FTAs, Business SA submitted they do appreciate at a high level that FTAs "help with marketing their products and making them available at a cheaper price than some competitors".<sup>7</sup>

The overwhelming feedback to Business SA is that FTAs have been positive for Australia, particularly the China FTA and especially in sectors such as wine which is now South Australia's largest single product export.<sup>8</sup>

- 2.5 The departments of Industry, Innovation & Science (DIIS) and of Jobs & Small Business (DJSB) jointly submitted that since Australia is traditionally a small market, then some entrepreneurs with high growth aspirations will make exporting crucial to their growth plans.<sup>9</sup>

The increased fragmentation of production has fuelled the growth in global value chains, characterised by increasing trade in intermediate goods. This has opened up opportunities for specialising in different tasks within vertically integrated global industries.<sup>10</sup>

- 2.6 Trade consultants KPMG submitted that free trade agreements have the potential to impact very positively on Australian exporters, industries and regions in terms of both trade market access and foreign investment. Recent FTAs, according to KPMG, have been a catalyst for greater interest in

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<sup>5</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.2*, p. 2.

<sup>6</sup> Dept. of Industry, Innovation & Science, *Supplementary submission 31.2*, p. 2.

<sup>7</sup> Business SA, *Submission 15*, p. 2.

<sup>8</sup> Business SA, *Submission 15*, p. 2.

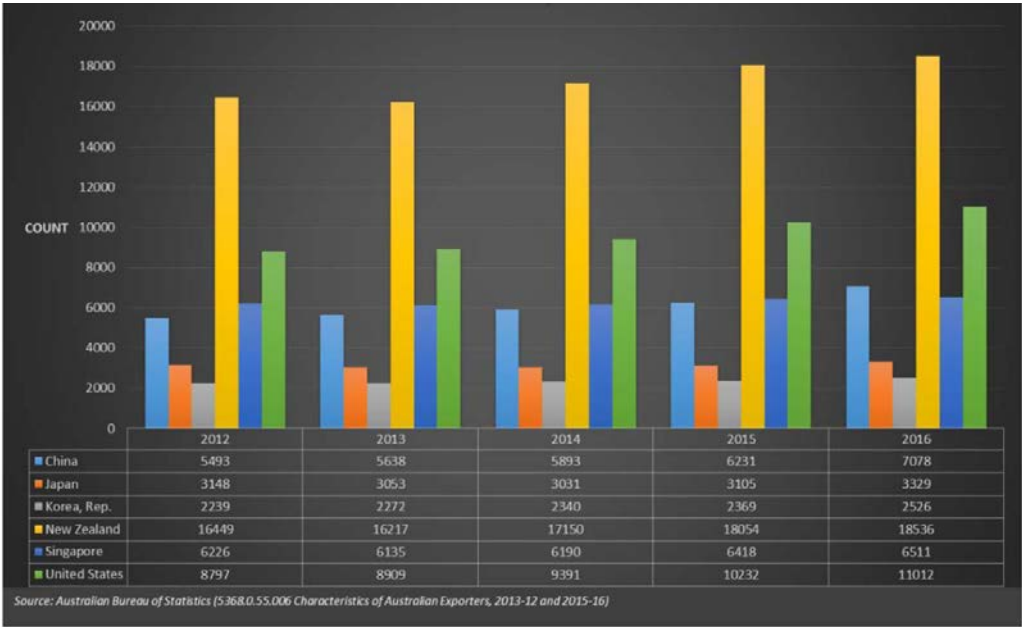
<sup>9</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 7.

<sup>10</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 7.

international engagement from the Australian SME community and have “already delivered tangible benefits to our exporters and importers”.<sup>11</sup>

In particular, we have seen an increase in client awareness and confidence in relation to the opportunities that Asian markets offer, a more strategic approach to determining where our clients will play and how they will win, and a greater ambition in approach to international engagement.<sup>12</sup>

**Figure 2.3 Total number of Australia exporters to selected FTA partner countries, 2012-2016.**

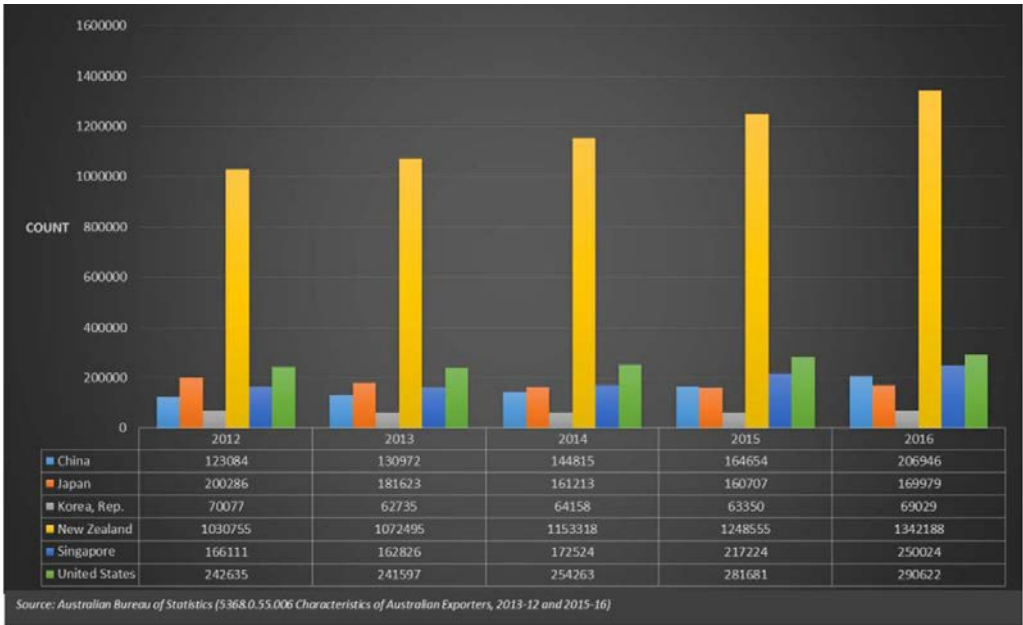


Sources: Dr Di Lieto & Dr Treisman, Submission 7 & ABS Characteristics of Australian Exporters, 2011-13 and 2015-16, Total number of Australia exporters to selected FTA partner countries, 2012-2016

<sup>11</sup> KPMG, Submission 4, p. 2.

<sup>12</sup> KPMG, Submission 4, p. 2.

**Figure 2.4    Total number of Australia export transactions to selected FTA partner countries, 2012-2016**



Sources: Dr Di Lieto & Dr Treisman, Submission 7 & ABS Characteristics of Australian Exporters, 2011-13 and 2015-16, Total number of Australia export transactions to selected FTA partner countries, 2012-2016

2.7    KPMG noted how the gradual reduction of historic tariff barriers following an FTA, coupled with increasing Asian upper-middle class consumer brand awareness of high quality Australian exports has “unlocked a latent demand for Australian products across the region”.<sup>13</sup>

Despite this, we are now witnessing that non-tariff barriers are having a greater impact and are constraining SMEs’ abilities to meet demand in Asian markets. Resolving non-tariff barriers appears to be one of the greatest current challenges and therefore priorities for government to address.<sup>14</sup>

2.8    The Managing Director of Yumbah Aquaculture, Mr Jonathan Lillie, submitted that the FTA’s have been a great benefit to Yumbah’s business, which is a medium to large land-based abalone farming enterprise with farms located in Victoria, South Australia and Tasmania. Yumbah Aquaculture currently produces more than 650 tonnes of whole weight

<sup>13</sup> KPMG, Submission 4, p. 2.

<sup>14</sup> KPMG, Submission 4, p. 2.



abalone valued at around \$26-28 million, and employs 50 full-time and 30 part-time staff.<sup>15</sup>

Our abalone is sold both domestically and internationally with the majority around 80 per cent exported. Key countries we trade with are Japan, USA, Canada, China, Hong Kong, Singapore, Taiwan. We sell whole frozen abalone, frozen abalone meat, canned and retort vacuum packs. Frozen abalone is our specialty with only small trade in live abalone on the domestic market.<sup>16</sup>

In most cases we try to sell our abalone in our own branded packs. We were one of the first to market a 1 kg retail/wholesale packs of whole frozen abalone.<sup>17</sup>

- 2.9 Yumbah Aquaculture admitted the tariff reductions had helped in the Japan market but other hurdles remain in other Asian markets such as Korea and China.<sup>18</sup>

Japan where we sell up to 150 tonnes whole weight of abalone per annum now has a zero tariff. The effect of this tariff reduction on sales has been somewhat muted due the ongoing slow economic conditions Japan continues to face.<sup>19</sup>

We see a big opportunities in South Korea with a massive reduction (20 per cent) in the frozen abalone tariff. Due to lack of product available we have been unable to develop business in this market...China has been and is still by far the most challenging country for us to develop the abalone business.<sup>20</sup>

- 2.10 As with Rock Lobster from Australia, Yumbah Aquaculture claimed that abalone has predominantly been imported into China through the "grey channel" to avoid the Value Added Tax and duty on import.<sup>21</sup>
- 2.11 Grey channels, which are neither clearly legal nor clearly illegal, are commonly relied on by international firms as a means of accessing Chinese markets. Firms report that they use unauthorised grey channels to avoid China's high import tariffs, difficult regulatory hurdles, and inefficient

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<sup>15</sup> Yumbah Aquaculture, *Submission 16*, p. 1.

<sup>16</sup> Yumbah Aquaculture, *Submission 16*, p. 1.

<sup>17</sup> Yumbah Aquaculture, *Submission 16*, p. 1.

<sup>18</sup> Yumbah Aquaculture, *Submission 16*, p. 1.

<sup>19</sup> Yumbah Aquaculture, *Submission 16*, p. 1.

<sup>20</sup> Yumbah Aquaculture, *Submission 16*, p. 1.

<sup>21</sup> Yumbah Aquaculture, *Submission 16*, p. 1.

distribution networks. For food products, grey channels also involve risks such as unreliability in delivery and inadequate cool chain management.<sup>22</sup>

With the advent of the FTA the 10-14 per cent duty on abalone will be phased out by 2019 which should allow increased volumes at a more competitive rate to be traded directly in China. Historically we have mostly sold our products into Hong Kong (duty free) where it is either used internally or smuggled into Mainland China to avoid Duty/Vat.<sup>23</sup>

As a result of the grey channel import process and lowish prices in Hong Kong, China has not been a key target for market development as we have been able to develop excellent markets by targeting Asian residents living within Western countries.<sup>24</sup>

2.12 Now with the FTA in place Yumbah Aquaculture stated it looks forward to developing direct relationships with the Mainland China market.<sup>25</sup>

2.13 Managing Director of Murray Cod Australia, Mr Mathew Ryan, warned the level and the cost of red tape and getting initial approvals ... are probably "not a big impost on bigger companies, but they are for smaller companies".<sup>26</sup>

At the moment we're looking at moving all of our processing from a third-party processor to here. We've got the site already, and we're going through our export approvals. But, by the time we do it, we'll tear up 50 grand, probably, in approved arrangements and food safety stuff. It's all documentation that, rightly, we probably should have. I don't disagree with having it, but it does become quite expensive just to get. If we wanted to dip our toe in the water with small volumes, it makes it pretty tough. Then there is the flow-on...you're adding these costs onto your product, which makes you look less competitive into an export market.<sup>27</sup>

2.14 The Trade Manager of the Korea Trade-Investment Promotion Agency, Ms Jenny Kang, was concerned by media reports that "Australian SMEs

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<sup>22</sup> Sage Journals, China's grey channels as access points for foreign food products to the Chinese domestic market, <https://journals.sagepub.com/doi/abs/10.1177/0920203X09354962> (accessed 1 December 2018)

<sup>23</sup> Yumbah Aquaculture, *Submission 16*, p. 2.

<sup>24</sup> Yumbah Aquaculture, *Submission 16*, p. 2.

<sup>25</sup> Yumbah Aquaculture, *Submission 16*, p. 2.

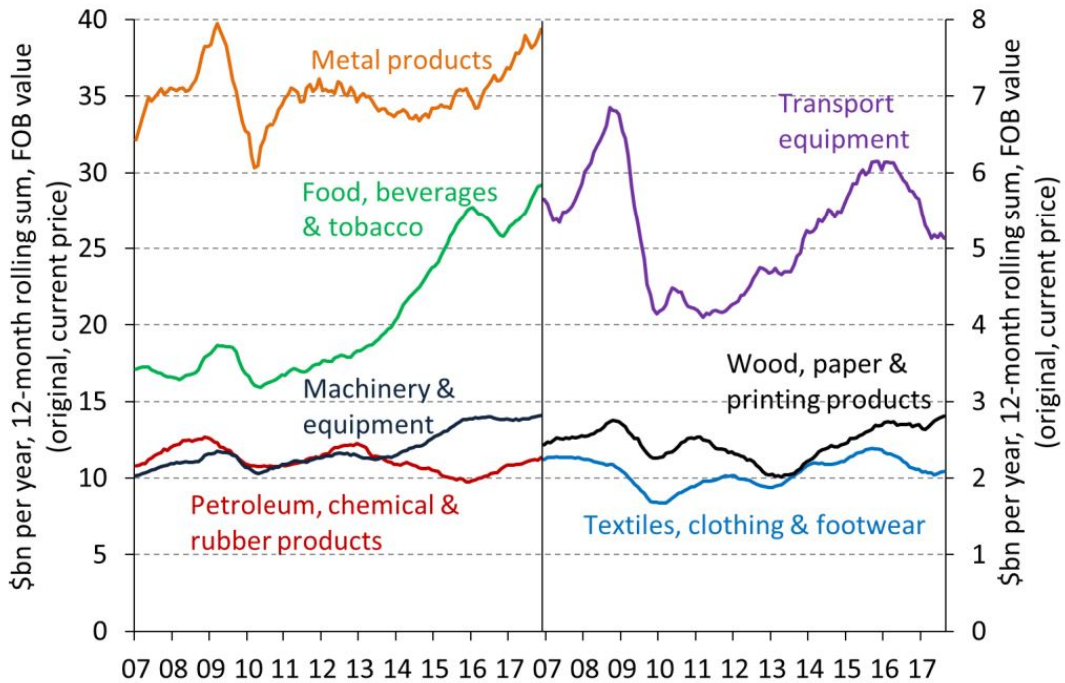
<sup>26</sup> Mr Mathew Ryan, *Committee Hansard*, 31 July 2018, pp. 17-18.

<sup>27</sup> Mr Mathew Ryan, *Committee Hansard*, 31 July 2018, pp. 17-18.

don't go to overseas markets because they are scared and they don't know what is in the market".<sup>28</sup>

...it's really important to understand each other and also educate those Australian businesses about cultures and markets so they can go overseas confidently.<sup>29</sup>

**Figure 2.5 Manufacturing exports by sector from 2007 to Nov 2017.**



Sources: Ai Group, Submission 34 & ABS International Trade in Goods and Services - Manufacturing exports by sector from 2007 to Nov 2017

## 2.15 KPMG highlighted the challenges of regulatory compliance for SME exporters that require:<sup>30</sup>

- the collection of production documentation;
- identifying and applying complex Rules of Origin to determine whether their product qualifies for FTA benefits;
- completion of Certificate of Origin templates; and

<sup>28</sup> Ms Jenny Kang, *Committee Hansard*, 30 July 2018, p. 19.

<sup>29</sup> Ms Jenny Kang, *Committee Hansard*, 30 July 2018, p. 19.

<sup>30</sup> KPMG, *Submission 4*, p. 9.

- getting certificates 'rubber stamped' by an industry body for \$30 to \$50, which can take days to arrive and are in hard copy.

2.16 National Manager of Business and International Advisory Services, Australian Industry Group, Ms Louise McGrath outlined that many of AI Group's membership do use FTAs for import and export.

However, many exporters do not...The reasons for not engaging with FTAs are as varied and complex as the reasons for exporting in the first place. However, they include low levels of understanding of how FTAs work, difficulty in accessing information, non-tariff barriers that have a great impact on manufactured goods, and FTAs not meeting exporters needs. However, we also contend that the use of FTAs is not an end in itself. Rather, they should be seen as one element in the wider support infrastructure that is needed to help SMEs internationalise.<sup>31</sup>

2.17 The Export Council of Australia supports the Australian Government's FTA agenda, but submitted there must be realism about what FTAs can help SMEs achieve in their target markets.<sup>32</sup>

FTAs can address a few, specific barriers. There is much that FTAs do not do. They rarely create a market for Australian goods or services. They don't address sanitary or phytosanitary issues or eliminate differences in regulations. SMEs still need to go through the long, hard work of building relationships and brands.<sup>33</sup>

2.18 The ECA believes if a market is a priority for the Australian Government, then there must be a multifaceted approach to facilitating trade with that market.<sup>34</sup>

An FTA should be just one element of the government's support in-market. The government must ensure its focus is helping SMEs internationalise and find the markets that are the right strategic fit for them, with FTAs just one aspect of this.<sup>35</sup>

2.19 Buderim Group Limited's Chief Executive Officer, Mr Andrew Bond, welcomed the frank discussions at the roundtable at Buderim Group's

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<sup>31</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 1.

<sup>32</sup> Export Council of Australia, *Submission 24*, p. 1.

<sup>33</sup> Export Council of Australia, *Submission 24*, p. 1.

<sup>34</sup> Export Council of Australia, *Submission 24*, p. 1.

<sup>35</sup> Export Council of Australia, *Submission 24*, p. 1.

Ginger Factory on the Sunshine Coast about the challenges that businesses face when seeking or working in export markets.<sup>36</sup>

So my recommendation would be that the inquiry give the feedback that free trade agreements are part of the bigger puzzle and we need all the pieces of the puzzle to work together in order to be successful.<sup>37</sup>

- 2.20 The South Australian Government submitted that it supported the approach taken by the Australian Government in recent years to open up overseas markets to Australian exporters through a series of FTAs. These have delivered measurable benefits to South Australian businesses, including SMEs, according to the SA Government.<sup>38</sup>

To take one example, in a sector very important to this State, our wine exports to China soared from \$155m in 2014-15 to \$391m in 2016-17, as tariffs fell from 14 per cent prior to the China-Australia Free Trade Agreement (ChAFTA) to 5.6 per cent in early 2017. Many of our wine exporters are SMEs.<sup>39</sup>

- 2.21 Business SA outlined the impact that ChAFTA had on opening the wine market up for South Australian winemakers.<sup>40</sup>

Australia's FTAs, particularly the China-Australia FTA, have done a considerable job in improving the competitiveness of local SME exporters which has been of particular benefit for South Australia's wine sector.<sup>41</sup>

- 2.22 According to a 2016 DIIS report on global production sharing and Australian manufacturing, Australia is starting to reap the benefits from global production sharing with global production network products now accounting for nearly half of the total manufacturing exports from Australia.<sup>42</sup>

- 2.23 The DIIS study found Australia has a competitive edge in parts and components specialisation in several product categories including aircraft parts and associated equipment, parts and earth moving and mineral processing machines, and specialised automotive parts. Australia also has a

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<sup>36</sup> Mr Andrew Bond, *Committee Hansard*, 24 July 2018, p. 20.

<sup>37</sup> Mr Andrew Bond, *Committee Hansard*, 24 July 2018, p. 20.

<sup>38</sup> Government of South Australia, *Submission 30*, p. 1.

<sup>39</sup> Government of South Australia, *Submission 30*, p. 1.

<sup>40</sup> Business SA, *Submission 15*, p. 1.

<sup>41</sup> Business SA, *Submission 15*, p. 1.

<sup>42</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 7.

competitive edge in final assembly products such as medical and surgical equipment, light aircraft, measuring and scientific equipment, and instruments for chemical analysis.<sup>43</sup>

Importantly, relative price competitiveness does not appear to be an important determinant of these exports from Australia because they are based on long-term supplier-producer relationships.<sup>44</sup>

- 2.24 ABS data from the Counts of Australian Business outlined that more than 61 per cent of Australia's SMEs are non-employing, a further 27 per cent of SMEs employ only 1-4 employees, and an additional nine per cent employ 5-19 employees.

A significant number of SMEs are primarily motivated by a lifestyle choice; with little intent to expand their business significantly or internationalise. In addition, a number of SMEs may see little net benefit (due to additional time/compliance/costs) to internationalise and become export-orientated.<sup>45</sup>

## Recommendation 1

- 2.25 **The Committee recommends that the Australian Government continues to embrace an ambitious free trade agenda with an expanding network of high quality free trade agreements (FTAs), while acknowledging that FTAs are only one way of enabling international trade for Australian businesses.**

## Impact of trade liberalisation on Victoria businesses

- 2.26 The Victorian Government regarded FTAs as an important part of the suite of government interventions to help firms penetrate international markets, increase exports and source capital from foreign investors.<sup>46</sup>

They are also an important driver of domestic based reform, such as the reduction of tariffs in Australia, which have benefits to consumers as well as importers and exporters participating in global supply chains.<sup>47</sup>

<sup>43</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 7.

<sup>44</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 7.

<sup>45</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 7.

<sup>46</sup> Victorian Government, *Submission 35*, p. 5.

<sup>47</sup> Victorian Government, *Submission 35*, p. 5.

- 2.27 Trade Victoria recently commissioned the Centre of International Economics (CIE) to build on this by undertaking a state-based quantitative study into the impacts of Australia's domestic trade liberalisation efforts over the last three decades.<sup>48</sup>
- 2.28 Trade Victoria believed the Victorian study, was the first to ever consider the impact on states of liberalisation of trade in goods, services and investment in Australia, and makes a valuable contribution to the evidence base about the specific benefits of trade liberalisation.<sup>49</sup>
- 2.29 The Victorian Government stated its study found that there have been significant gains to economic growth and employment in Victoria as a result of the removal of barriers to trade and investment between 1986-2016, including 184,000 additional jobs in Victoria.<sup>50</sup>
- Other findings include that Victoria has gained more than the rest of Australia from reduced goods and services trade barriers, due to the high value of services exports such as international education in Victoria. This highlights the benefits of addressing services and investment barriers as part of the Commonwealth Government's FTA negotiations as well as in the development of any national industry reform agenda.<sup>51</sup>
- 2.30 The Victorian Chamber of Commerce and Industry shared that it works closely with over 5,000 exporters, of which more than 3,500 are registered under Australia's various free trade agreements.<sup>52</sup>
- The Victorian Chamber recognises that international engagement is at the core of Victoria's economy, generating output and contributing vital income, investment and jobs.<sup>53</sup>
- 2.31 The Victorian Chamber outlined that Victoria's trade performance is strong. Victoria now accounts for 9.4 per cent of Australia's goods exports (\$27 billion) and is the second largest contributor to the nation's service exports, representing 25.6 per cent.<sup>54</sup>

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<sup>48</sup> Victorian Government, *Submission 35*, p. 5.

<sup>49</sup> Victorian Government, *Submission 35*, p. 5.

<sup>50</sup> Victorian Government, *Submission 35*, p. 5.

<sup>51</sup> Victorian Government, *Submission 35*, p. 5.

<sup>52</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 2.

<sup>53</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 2.

<sup>54</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 2.

Major goods exports include meat (\$2.45 billion), dairy products (\$1.75 billion), wool (\$1.79 billion), and wheat (\$1.81 billion). Important service exports include education (\$9.09 billion), tourism and travel (\$5.17 billion), and professional services and management consulting (\$1.32 billion).<sup>55</sup>

2.32 Although traditional markets such as Europe, the USA and the Middle East remain important to Victoria, merchandise exports to Asia now account for over 50 per cent of Victoria's exports, according to the Chamber. The share is even larger when the value of service exports is added.<sup>56</sup>

2.33 Professor Gabriele Suder, appearing in a private capacity, highlighted the recent changes to the liberalisation of world trade.<sup>57</sup>

The United States is doing certain things; the European Union is doing things; but there are a lot of new players on the world scene that we need to pay attention to in this discussion. For example, TPP-11 went ahead without the United States of America. Also, I think the world's largest free trade agreement has been signed in March on the African continent. So there are also structures that go ahead in different ways without what we assumed to be the future of world leadership. There are a lot of dynamics that are changing there as well, and that needs to be part of the discussion.<sup>58</sup>

2.34 The Australian Industry Defence Network Victoria (AIDN VIC), which represents 300 Victorian SMEs who work across the Defence and dual-use industries, submitted its members are global exporters of commercial and dual-use goods and technologies who look to emerging export markets as key sources of revenue.<sup>59</sup>

Australia's newly established free trade and Preferential Trade Agreements with China, Japan and Korea mean Victoria's SMEs have gained an additional avenue to facilitate trade and commerce into these regional markets. At the same time, we recognize that for many SMEs, navigating the complexities of FTAs proves to be a complicated process.<sup>60</sup>

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<sup>55</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 2.

<sup>56</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 2.

<sup>57</sup> Professor Gabriele Suder, *Committee Hansard*, 30 July 2018, p. 29.

<sup>58</sup> Professor Gabriele Suder, *Committee Hansard*, 30 July 2018, p. 29.

<sup>59</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 1.

<sup>60</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 1.



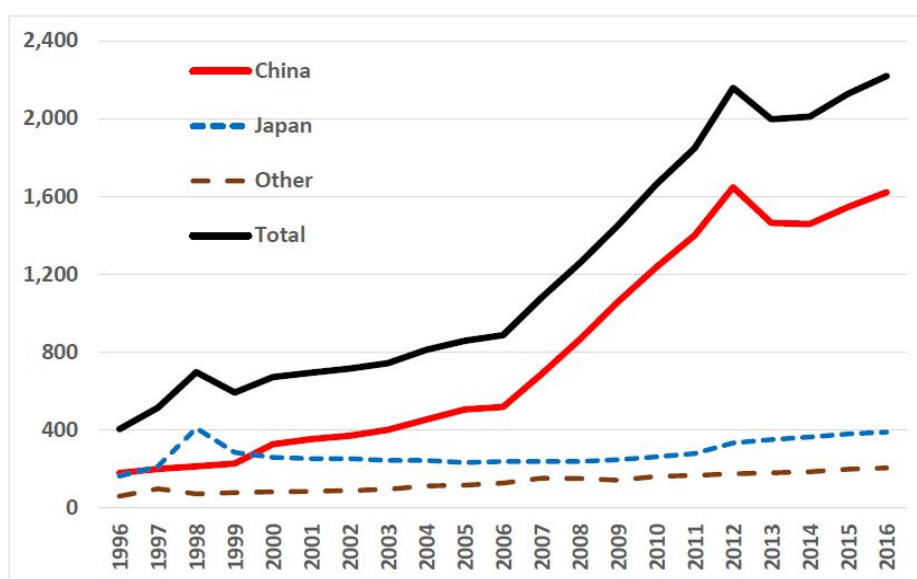
## Australia's growing wine exports into Asia

2.35 Executive Director of the Wine Economics Research Centre, Professor Kym Anderson, submitted the dramatic changes in export markets for Australian wine. Australia's wine exports in the 1980s and 1990s were mostly directed to just four English language markets: the UK, US, Canada and New Zealand.<sup>61</sup>

2.36 Then in the most-recent decade, Professor Anderson highlights how the importance of both Europe and North America in Australia's wine exports has been eclipsed by the growth in sales to East Asia, most notably China and especially in value terms.<sup>62</sup>

The redirection to Asia is not surprising, given the huge growth in wine consumption there – although it is concentrated in the more affluent countries of East Asia, most notably China.<sup>63</sup>

**Figure 2.6 Asian wine consumption volume, 1995 to 2016 (ML)**



Source: Updated from Anderson and Pinilla (2017).

Source: Professor Kym Anderson - Wine Economics Research Centre, Submission 11.

<sup>61</sup> Professor Kym Anderson - Wine Economics Research Centre, Submission 11, p. 3.

<sup>62</sup> Professor Kym Anderson - Wine Economics Research Centre, Submission 11, p. 3.

<sup>63</sup> Professor Kym Anderson - Wine Economics Research Centre, Submission 11, p. 3.

- 2.37 Professor Anderson expects that concentration is projected to continue, helped by the free trade agreements Australia recently signed with China, Korea and Japan, which have helped to divert wine imports from Chile and New Zealand – who preceded Australia in signing bilateral FTAs with those Northeast Asian countries.<sup>64</sup>

Thus the fastest-growing markets for Australian wine in the next few years will be in East Asia. These markets are less familiar to SME producers who have previously sold only in English-speaking countries. Without assistance in getting started in those markets, smaller SMEs may decide they cannot afford the high up-front costs of building the necessary business links to succeed in Asia.<sup>65</sup>

**Figure 2.7 Various attributes of Australian wineries, 2000, 2010 and 2016 (as %)**

	2000	2010	2016
Total number of producers	1,197	2,477	2,494
<i>Share (%) of producers ...</i>			
making table wine	99	99	98
making fortified wine	33	29	29
making sparkling wine	28	35	42
making organic wine	na	5	4
making wine on site	63	52	53
with a website	25	84	90
with a cellar door	78	68	66
who export wine	41	51	47
who export to UK	28	27	21
who export to USA	26	27	18
who export to Canada	11	24	19
who export to NZ	14	8	8
who export to Japan	12	12	13
who export to Hong Kong	8	19	21
who export to Singapore	7	25	22
who export to China	2	23	30

Source: Professor Kym Anderson - Wine Economics Research Centre, Submission 11.

<sup>64</sup> Professor Kym Anderson - Wine Economics Research Centre, Submission 11, p. 3.

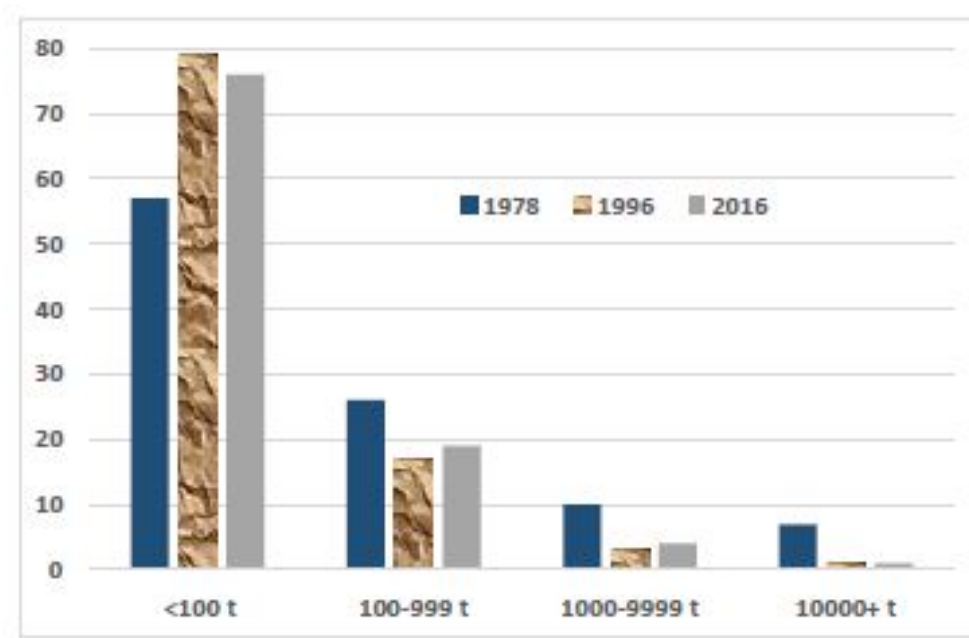
<sup>65</sup> Professor Kym Anderson - Wine Economics Research Centre, Submission 11, p. 3.

2.38 The Australian wine industry is made up of small, medium and large businesses, according to the Winemakers' Federation of Australia (WFA).<sup>66</sup>

2.39 The WFA submitted there are five large businesses that produce a large volume of the wine, and then there is an extremely long tail of SMEs which make up the remaining industry of 2500 producers<sup>67</sup> and also 6,000 grapegrowers.<sup>68</sup>

These smaller businesses are commonly family owned and support regional communities across 65 designated Geographical Indication (GI) wine regions.<sup>69</sup>

**Figure 2.8 Share of Australian wineries by crush, 1978, 1996, 2016 (%)**



Source: Professor Kym Anderson - Wine Economics Research Centre, Submission 11.

<sup>66</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

<sup>67</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

<sup>68</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 1.

<sup>69</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

**Figure 2.9 Number of Australian wineries by tonnes crushed, 1998 to 2016**

	1998	2000	2002	2004	2006	2008	2010	2012	2014	2016
< 10 tonnes					277	390	459	543	548	526
10 to 19 tonnes					324	376	412	449	391	365
< 20 tonnes	293	337	418	582						
20 to 49 tonnes	211	259	331	414	481	512	527	553	506	472
50 to 99 tonnes	145	180	212	254	303	337	346	316	328	306
100 to 249 tonnes	142	157	189	211	242	257	259	235	229	235
250 to 499 tonnes	50	78	88	106	126	150	158	147	146	144
500 to 999 tonnes	31	40	61	72	74	76	85	85	81	85
1,000 to 2,499 tonnes	44	45	54	45	69	61	58	52	61	58
2,500 to 4,999 tonnes	19	29	36	40	27	37	38	36	27	29
5,000 to 9,999 tonnes	16	20	23	24	28	23	22	16	12	10
10,000+ tonnes	34	41	41	43	41	28	28	31	27	123
Unspecified	13	11	12	7	16	73	85	109	125	141
Total	998	1197	1465	1798	2008	2320	2477	2572	2481	2494

Source: Professor Kym Anderson - Wine Economics Research Centre, Submission 11.

- 2.40 The WFA admitted international trade is of vital importance to the Australian wine sector. Around 60 per cent of sales are exported, highlighting the wine industry's reliance on exports and the importance of free trade agreements (FTAs), according to the WFA.<sup>70</sup>

According to the Wine Australia Export Report (December 2017) during 2017 there were 2210 active Australian wine exporters who shipped wine to 126 different overseas destinations. Australian wine exports are currently booming and have been steadily rising in both volume and value since 2014.<sup>71</sup>

- 2.41 The WFA stated Australian wine exports increased by 15 per cent to \$2.56 billion in the 12 months ending December 2017 with the WFA crediting much of this demand to increased exports to China.<sup>72</sup>

An undeniable factor in the rise of Australian wine exports has been the industry's success in China. Australia has risen to become the second largest importer of wine into China in both volume and value, up 63 percent in value to \$848million in 2017. The export figures for 2017 suggest Australia is well-placed for this trend to continue.<sup>73</sup>

<sup>70</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

<sup>71</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

<sup>72</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

<sup>73</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

## FTAs raise awareness of Australian wine in new markets

2.42 The WFA credited the implementation of the China-Australia Free Trade Agreement in 2015 with providing the “true impetus for the extraordinary growth in this market over the last few years”.<sup>74</sup>

2.43 The Chief Executive of the Winemakers’ Federation of Australia, Mr Anthony Battaglione, explained why he regards the lowering of tariffs as the “least important thing in most free trade agreements”.<sup>75</sup>

They are the most visible, but the important thing about free trade agreements is the awareness they raise and the fact that people suddenly realise that there is a potential market both for the exporter and for the importer and that the awareness is raised on both sides.<sup>76</sup>

2.44 Mr Battaglione reaffirmed the lowering and removal of tariffs on exports of Australian wine into China as a positive though.<sup>77</sup>

I'm not trying to belittle the efforts—this reduction is fantastic—but the big thing here has been the awareness raising. We are already seeing it. In China, the top four companies have about 40 to 50 per cent of our exports. Normally, they have 70 to 80 per cent. There are 1,500 exporters to China. That is much more than any other country. So what we are seeing are small companies and entrepreneurs getting into the market. We are already seeing that. China is a market where we are seeing the small players play a large role. They are able to get in on that growth, which is fantastic.<sup>78</sup>

2.45 The Managing Director of wine exporter Inland Trading Company, Mr Greg Corra, who exports product on behalf of 75 wineries to currently 58 international markets, outlined the main benefits of tariff reductions on Australian wine has been “experienced in fact by our importers, who have been able to reduce the level of tariffs and duties they pay”.<sup>79</sup>

Take, for example, the Chinese market. We will soon be zero. We're down now to 2.8 per cent. Remember that other people were already at zero, so we've caught up with the Chileans and with the New Zealanders. We're almost on

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<sup>74</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 3.

<sup>75</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 4.

<sup>76</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 4.

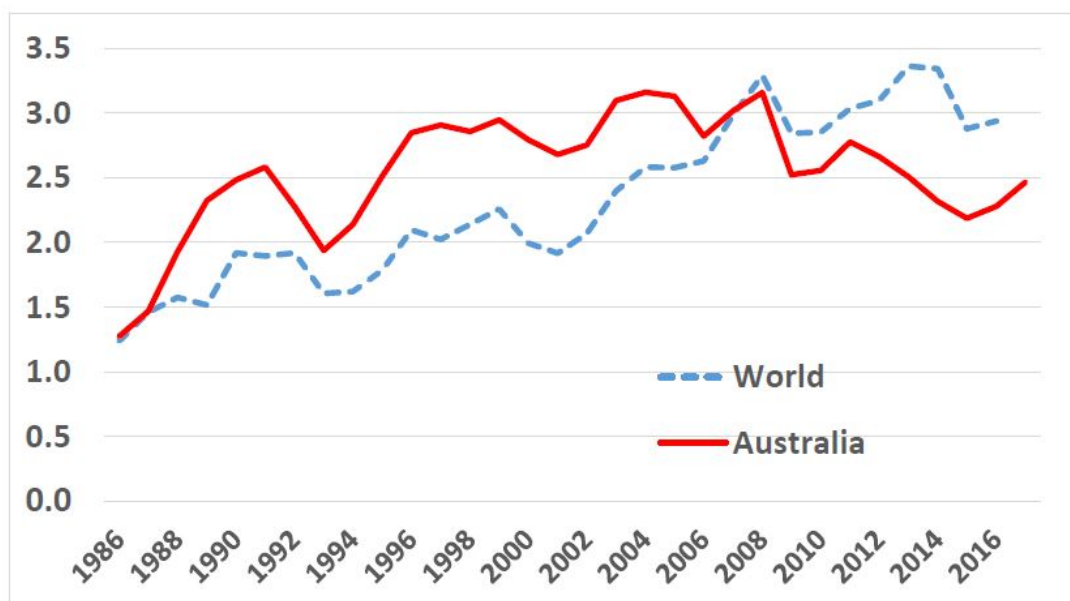
<sup>77</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 4.

<sup>78</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, pp. 4-5.

<sup>79</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 2.

an equal playing field...But remember that the only thing from the free trade agreements is a reduction in the import duties. All the other components still exist. So the free trade agreement has resulted in some reduction. That level of reduction obviously has benefited our importers, but one thing we've seen a greater benefit from is the massive reduction we've seen in the exchange rates for Australia. Right now the benefits are greater from exchange rate reductions than from free trade agreements.<sup>80</sup>

**Figure 2.10 Average price of wine exports, Australia and the world, 1986 to 2017 (current US\$-litre)**



Source: Professor Kym Anderson - Wine Economics Research Centre, Submission 11.

- 2.46 Mr Battaglione explained how the 150 per cent tariff and other barriers placed on Australian wine by Indian authorities is discouraging most smaller winemakers from exporting to India.<sup>81</sup>

If you're small or medium, you just don't go to India. It's just too hard. It's not just the tariff; they've also got a lot of restrictions—on labelling and composition in particular. We've worked through that and overcome some of those to make it possible. But it's a very difficult market to break into and certainly not one I would recommend to small producers. Some of the big companies are in there. Whether they're making any money, I'm not sure... If I

<sup>80</sup> Mr Greg Corra, *Committee Hansard*, 15 October, pp. 2-3.

<sup>81</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 5.

was recommending something to any small winemaker, I would be saying: 'Forget about it. Go for a better market.'<sup>82</sup>

## Grape variety and Geographical Indication protection

2.47 Geographical indications (GIs) are recognised and protected as intellectual property in the WTO Agreement on Trade Related Aspects of Intellectual Property (TRIP), according to the Winemakers' Federation of Australia. However the WFA believes it is possible for geographical indications to become obstacles to trade where their protection exceeds the requirements of TRIPs, for example where:<sup>83</sup>

- geographical indications are protected without a reasonable opportunity for opposition by interested parties;
- geographical indications are given greater rights than prior existing trade marks;
- additional rights are attached to geographical indications, such as the right to use common descriptive terms (sometime called "traditional terms") in such a way as to exclude other legitimate users;
- where geographical indications contain or consist of a generic element such as a grape variety name, the generic element is reserved exclusively for the owners of the geographical indication.

2.48 The WFA points out these trade barriers are not currently encountered in many economies but are generally encountered within the European Union (EU). However, the WFA warns of the attempts of the EU to export its 'TRIPs-plus' approach to geographical indications in the context of free trade agreements means that there is a need to pro-actively ensure that existing IP rights and the ability to use common vocabulary is protected.<sup>84</sup>

The EU has run a very aggressive campaign on GI protection and protection of traditional terms. We would appreciate clarification in the negotiations that common English words can continued to be used to describe or present a wine even if they are similar or identical to a GI or Traditional Term from Europe.<sup>85</sup>

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<sup>82</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 5.

<sup>83</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.

<sup>84</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.

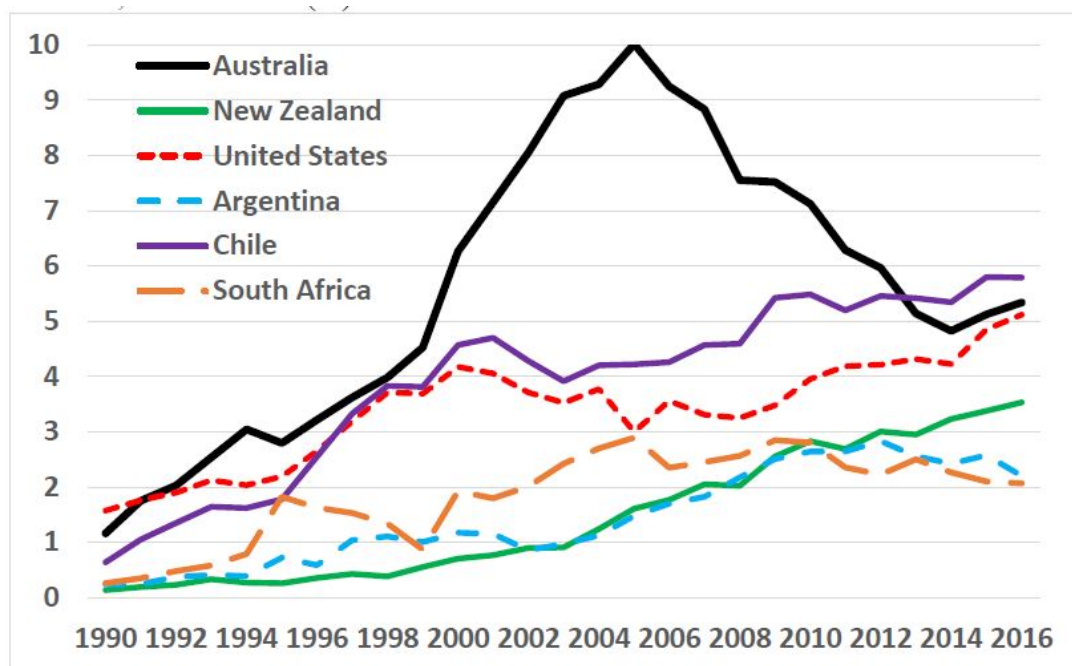
<sup>85</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.



- 2.49 The WFA will be seeking wording in the IP Chapter of FTAs to ensure that in the case of a trade agreement with the European Union, that wine GIs are protected according to the TRIPs obligations of the parties.<sup>86</sup>

Specifically, that Australia will be permitted to continue to use our wine GIs if they contain a word or are the same as a European GI and that grape variety names that are the same as a European GI can continue to be used (for example Prosecco).<sup>87</sup>

**Figure 2.11 National shares of value of global wine exports, Australia and other New World countries, 1990 to 2016.**



Source: Professor Kym Anderson - Wine Economics Research Centre, Submission 11.

- 2.50 The Chief Executive of the WFA, Mr Anthony Battaglene, explained Australian winemakers have lived under a geographical indication system since the early nineties because Australia created a system with the European Union.<sup>88</sup>

We have lived quite happily under it. Since that time, the EU has very cynically tried to reinvent the wheel a little bit. For example, they have

<sup>86</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.

<sup>87</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.

<sup>88</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 6.



abolished the use of 'Prosecco' as a grape variety—which it always was, and it was in our original wine agreement. They now called it Glera under legislation, and they've created a region called 'Prosecco'. So, not only can't we sell Prosecco to the EU anymore, but they try and register these GIs. These are principally GIs that have Italian grape varieties in them, so there's a fairly small subset but it's growing, and they will go around and individually register these in different countries around the world as a GI. Once these countries do an agreement with Europe, part of that agreement is, 'You will register our GIs,' and that prevents us using that term at all. So we are seeing them pick us off one by one. For example, we can no longer export Prosecco to Japan; we would have to call it something else.<sup>89</sup>

- 2.51 Mr Battaglene outlined how Prosecco was always a grape variety and it was indigenous to a large area around Conegliano and Valdobbiadene, near Venice.<sup>90</sup>

So Prosecco was sold and it was a sparkling wine, described as a grape variety, like we do in Australia—very successful. Then, as other countries started planting that grape variety, the Italians got nervous that other countries would compete with them on the market. You can't stop other people using it; you can just protect the name for yourselves, and then you do wine agreements and trade agreements.<sup>91</sup>

- 2.52 Mr Battaglene detailed that the second biggest producers of Prosecco in the world are Brazil, and then Australia, and this EU manoeuvre was mainly aimed at Brazil and Australia.<sup>92</sup>

It's very cynical, because there's room for us all, in our view.<sup>93</sup>

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<sup>89</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 6.

<sup>90</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 6.

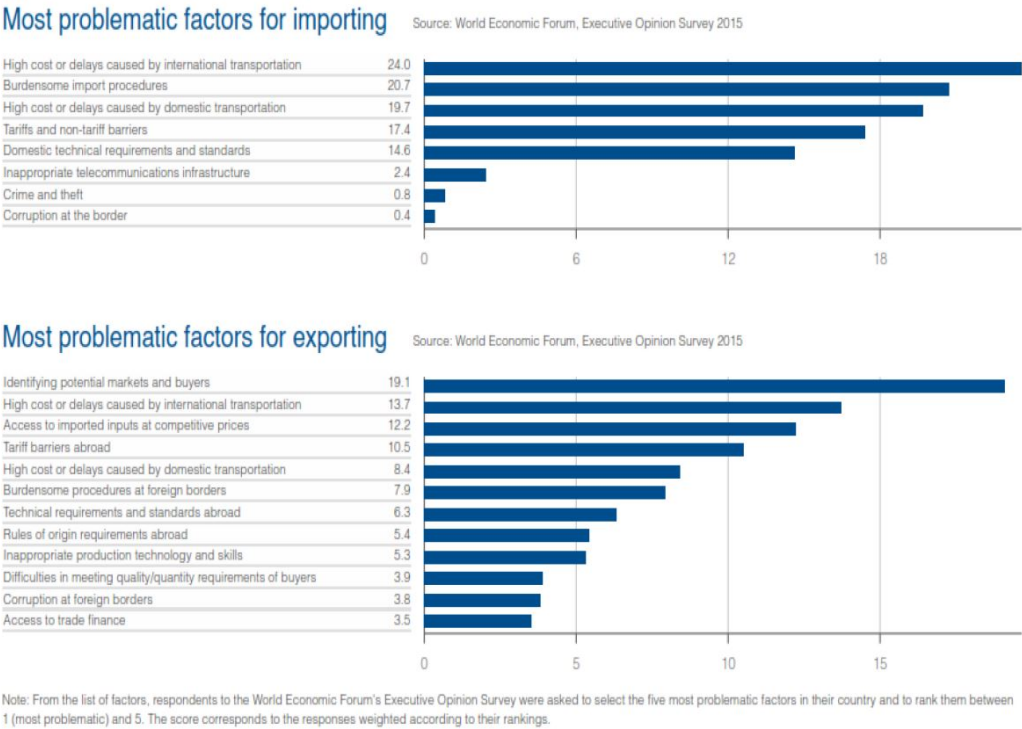
<sup>91</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 6.

<sup>92</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 6.

<sup>93</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 6.

# Challenges for SME exporters to utilise FTAs

Figure 2.12 Most problematic factors for Australia, importing & exporting, 2015



Source: Ai Group, Submission 34, Most problematic factors for Australia, importing & exporting-2015.

2.53 Ms Leigh Bryant the Principal at Scorpion International believes Australia’s future is bilateral trade.<sup>94</sup>

We've got to stop thinking about supporting our exporters only. We've got to think about all those little SMEs that are starting up...We will import. We will continue to import. We import massive amounts of consumables that we don't even think about. With the daily loaf of bread, 82 per cent of it is actually export. We export the wheat. It's turned into something or other. It comes back. We are huge importers. Let's stop creating barriers for global trade, and let's continue to do the things that open up trade for us as a country and make people a lot more aware of their opportunities in being part of the global marketplace.<sup>95</sup>

<sup>94</sup> Ms Leigh Bryant, *Committee Hansard*, 1 August 2018, p. 21.

<sup>95</sup> Ms Leigh Bryant, *Committee Hansard*, 1 August 2018, p. 21.

## Australian pork exporters

- 2.54 The Australian pork industry employs more than 36,000 people across an estimated 1100 pig producers producing around five million pigs annually Australian Pork Ltd submitted. About 95 per cent of the pig producers are SMEs in an industry contributes approximately \$5.3 billion in gross domestic product to the Australian economy. Although a high number of piggeries have expressed interest in exporting, Australian Pork admitted most are unable to do so due to costs.<sup>96</sup>

Approximately ten percent of Australia's pork production is exported, and this mostly comes from a handful of larger exporters. Typically, SMEs struggle to meet stringent domestic and importing country requirements to export meat. The requirements are administratively complex and expensive to implement.<sup>97</sup>

- 2.55 Australian Pork Ltd outlined satisfying Australia's domestic regulation, as set out in the Export Control (Meat and Meat Products) Orders 2005, requires establishment accreditation, approved arrangements, permits, certificates, inspectors, quality assurance systems, product traceability, official marks, regular audits, trade descriptions, chemical withholding periods, export slaughter intervals, and more.<sup>98</sup>

The tangle of compliance measures is difficult to unravel, particularly for SMEs. Then there is the cost. A small domestic processor looking to become export eligible for uncooked pig meat faces initial costs upwards of \$100,000, including registration, external training, inspectors, and initial audits.<sup>99</sup>

- 2.56 Australian Pork Ltd admitted the requirements for exports of processed meat are more forgiving and make exporting more appealing.<sup>100</sup>

Many small and medium-sized pork processors have found success in overseas markets. For example, boutique smallgoods-maker Pialligo Estate exports fresh, artisanal bacon from Canberra to Singapore via airfreight.

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<sup>96</sup> Australian Pork Ltd, *Submission 20*, p. 1.

<sup>97</sup> Australian Pork Ltd, *Submission 20*, p. 1.

<sup>98</sup> Australian Pork Ltd, *Submission 20*, p. 1.

<sup>99</sup> Australian Pork Ltd, *Submission 20*, p. 1.

<sup>100</sup> Australian Pork Ltd, *Submission 20*, p. 1.

Under the Singapore-Australia FTA, import tariffs on pork are bound at zero.<sup>101</sup>

2.57 Australian Pork Ltd administers the Australian Pork Quality Assurance Program, APIQ at the farm level, and “demonstrating compliance with the Export Control Orders is sometimes required explicitly by export markets”.<sup>102</sup>

2.58 Australian Pork Ltd submitted it has made efforts to simplify the process for small-holders (businesses with 20 sows or fewer), with “less burdensome requirements that also meet minimum domestic and export standards”.<sup>103</sup>

Despite this, only about 10 percent of small and medium sized pig farms are APIQ accredited, with the remaining 90 per cent remaining essentially ineligible for exports. Many SME producers simply do not wish the cost and impost of establishing and maintaining a quality assurance system, nor paying for the cost of independent auditing.<sup>104</sup>

2.59 Apart from the challenging regulatory environment, Australian Pork Ltd conceded another export challenge for the Australian pig industry is the inability to supply overseas customers with consistently large volumes.<sup>105</sup>

Ninety percent of domestic pork production is consumed locally, with limited volume available for large overseas shipments.<sup>106</sup>

## **Government fees and charges on medical device exports**

2.60 The Australian Dental Industry Association (ADIA) questioned the Australian Government’s imposition of a range of fees, charges, and taxes on SMEs that seek to import and export medical devices.<sup>107</sup>

Further, foreign governments with which Australia has entered into FTAs continue to impose additional cost burdens on SMEs through the refusal to

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<sup>101</sup> Australian Pork Ltd, *Submission 20*, p. 1.

<sup>102</sup> Australian Pork Ltd, *Submission 20*, p. 2.

<sup>103</sup> Australian Pork Ltd, *Submission 20*, p. 2.

<sup>104</sup> Australian Pork Ltd, *Submission 20*, p. 2.

<sup>105</sup> Australian Pork Ltd, *Submission 20*, p. 2.

<sup>106</sup> Australian Pork Ltd, *Submission 20*, p. 2.

<sup>107</sup> Australian Dental Industry Association, *Submission 29*, p. 6.

accept Australian Government documentation without additional notarisation.<sup>108</sup>

- 2.61 ADIA agreed that FTAs are of great value to SMEs that manufacture and supply dental products as they eliminate formal tariffs and other barriers to trade that make it difficult for them to compete internationally.<sup>109</sup>

However, Australian SMEs in the dental sector must contend with fees and charges imposed on them by the Australian Government and foreign governments alike which undermine their ability to attain the full benefits of FTAs.<sup>110</sup>

- 2.62 Mr Troy Williams, the Chief Executive Officer of the Australian Dental Industry Association believes from the perspective of the manufacturers and suppliers of dental products, the key would be to help Australian government departments which have oversight of product and services regulation to understand what their commitments in FTAs are.<sup>111</sup>

That would go a long way to reducing the red tape that those businesses face. It's great to have the FTAs, but ... if governments are writing regulatory standards in an environment almost where they've got no idea what their expectations are that creates challenges. From where we sit, in terms of regulatory harmonisation and red-tape reduction, helping the Australia Government understand, through all levels, what it signed up to would be of great benefit, which would help the SME sector.<sup>112</sup>

- 2.63 ADIA outlined the range of Therapeutic Goods Administration (TGA) costs to apply to have a 'high-risk' medical device, also known as 'Class III' using the regulatory descriptor, placed on the ARTG for lawful import or export, the TGA charges a \$1,290 one-off application fee. Then, the business must also pay a \$1,140 annual charge to maintain this ARTG entry each year. High-risk devices typically also require a business to pay an 'application audit assessment fee' of either \$3,760 or \$6,900. On top of these fees, to export the product a business must also pay \$170 for an 'export certificate' or 'certificate of free trade'.<sup>113</sup>

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<sup>108</sup> Australian Dental Industry Association, *Submission 29*, p. 6.

<sup>109</sup> Australian Dental Industry Association, *Submission 29*, p. 6.

<sup>110</sup> Australian Dental Industry Association, *Submission 29*, p. 6.

<sup>111</sup> Mr Troy Williams, *Committee Hansard*, 2 August 2018, p. 49.

<sup>112</sup> Mr Troy Williams, *Committee Hansard*, 2 August 2018, p. 49.

<sup>113</sup> Australian Dental Industry Association, *Submission 29*, p. 6.

- 2.64 The business, according to the ADIA, then needs the Department of Foreign Affairs and Trade (DFAT) to issue its 'seal' on the certificate which typically costs \$80 though can be higher if the document contains more pages.<sup>114</sup>

There appears to be no logical justification for the requirement to have DFAT affix a 'seal' on an export certification document prepared and issued by the Australian Government itself.<sup>115</sup>

- 2.65 Therefore the ADIA points out the cumulative Australian Government-imposed cost burden for an SME to export a high-risk medical device can be as high as \$8,440 up-front and \$1,140 annually going forward.<sup>116</sup>

It is important to stress that these are the cost burdens imposed on SMEs by the Australian Government before the product is even exported.<sup>117</sup>

- 2.66 The ADIA submitted of great concern to SMEs that import and export dental products is the TGA's proposal to impose for the first time, from 1 July 2018, a new \$530 fee to apply to have low-risk medical devices added to the Australian Register of Therapeutic Goods (ARTG).<sup>118</sup>

## **Finding customers for Australian exports**

- 2.67 Ai Group's Ms McGrath believes one of the main areas identified by its members, in terms of increasing exports, is simply finding customers.<sup>119</sup>

We think, with the amount of information that's accessible on the internet today, that finding customers should be quite simple; however, really the basic principles of export have not changed. You still need to do your due diligence in finding the right customers with the right channel to market for your product and for your company. That is the biggest barrier we find amongst our companies, particularly SMEs.<sup>120</sup>

- 2.68 The President of the Australia China Business Council Victoria, Hon. Ken Smith, AM, warns Australians have to better understand their market and

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<sup>114</sup> Australian Dental Industry Association, *Submission 29*, pp. 6-7.

<sup>115</sup> Australian Dental Industry Association, *Submission 29*, p. 7.

<sup>116</sup> Australian Dental Industry Association, *Submission 29*, p. 7.

<sup>117</sup> Australian Dental Industry Association, *Submission 29*, p. 7.

<sup>118</sup> Australian Dental Industry Association, *Submission 29*, p. 7.

<sup>119</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 2.

<sup>120</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 2.

especially how China is developing closer trading linkages across the globe.<sup>121</sup>

...and we've just got to educate people more. I think there's a bigger threat coming up, which is the Belt and Road Initiative, where the Chinese government is opening up a huge market in Asia, in Africa and also in Europe that will be competing against our products in Australia. So we're going to have to work harder but understand the market before we start pushing over there because, if you don't understand the market, you're going to be very sad and out of money by the time you're finished.<sup>122</sup>

- 2.69 Managing Director of Agricultural Tours Riverina, Mr John Collins, believes support for translations of promotional material into foreign languages would assist his Asian ambitions.<sup>123</sup>

...but one of the ways in which I could make my business much more noticeable to people in countries with which we have free trade agreements is some way of quickly financing translations of prospectuses and brochures suddenly into Cantonese or suddenly into Korean. I recently had one page translated into 10 different European and Asian languages, and it cost me about \$5,000. That's one page—that's not the website...<sup>124</sup>

## Capabilities required by Australian exporters

- 2.70 Trade consultants KPMG submitted that it is working with many medium-sized Australian companies using its *Access Asia* trade consulting services initiative across a wide range of industries - including agriculture, food and beverage, branded consumables, advanced manufacturing, technology and services.<sup>125</sup>

We work with small cap listed and private companies to develop Asian and international market entry and growth strategies, to find the right supply chain and distribution partners in-market, to take advantage of various government grants and incentives on offer and to make the best use of FTAs for lower foreign taxes and greater market access.<sup>126</sup>

<sup>121</sup> Hon. Ken Smith, *Committee Hansard*, 30 July 2018, p. 18.

<sup>122</sup> Hon. Ken Smith, *Committee Hansard*, 30 July 2018, p. 18.

<sup>123</sup> Mr John Collins, *Committee Hansard*, 31 July 2018, p. 18.

<sup>124</sup> Mr John Collins, *Committee Hansard*, 31 July 2018, p. 18.

<sup>125</sup> KPMG, *Submission 4*, p. 2.

<sup>126</sup> KPMG, *Submission 4*, p. 2.

2.71 Australia's national centre for assisting businesses to develop their Asian capabilities, Asialink Business, submitted that while FTAs can increase Australia's competitive trading advantage, "businesses need a wide range of capabilities to succeed in international markets".<sup>127</sup>

- For our Asian FTA partners, a high-level of Asia capability – a mix of critical skills, knowledge and networks – is required to achieve results and capture maximum value from free trade agreements.<sup>128</sup>

2.72 The Asialink Taskforce observed for an Asia Capable Workforce that "capability issues are among the greatest impediments to planned expenditure or expansion into Asia for Australian businesses".<sup>129</sup>

Many Australian businesses are seeking information, resources and training to help them export goods and services. The lack of Asia capability can create barriers for Australian SMEs in accessing and utilising FTAs, limiting the ability to design and execute an effective Asia market strategy, a pre-requisite for the successful utilisation of the trade agreements.<sup>130</sup>

2.73 Asialink Business highlighted the common capability challenges as:<sup>131</sup>

- Identifying market opportunities, market entry strategies and appropriate distribution channels;
- Language barriers;
- Cultural understanding and basic business customs; and
- Navigating the regulatory environment.

2.74 KPMG warned of the significant challenges for SMEs to understand how much the culture of doing business can vary across Asia and between its regions with that of doing business in Australia.<sup>132</sup>

SMEs struggle to understand language differences and certain practices within Asian business, such as saving 'face', engaging in 'Guan Xi' and other business practices that simply remain illegal for Australian companies.<sup>133</sup>

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<sup>127</sup> Asialink Business, *Submission 17*, p. 2.

<sup>128</sup> Asialink Business, *Submission 17*, p. 2.

<sup>129</sup> Asialink Business, *Submission 17*, p. 3.

<sup>130</sup> Asialink Business, *Submission 17*, p. 3.

<sup>131</sup> Asialink Business, *Submission 17*, p. 3.

<sup>132</sup> KPMG, *Submission 4*, p. 2.

<sup>133</sup> KPMG, *Submission 4*, p. 2.



Though FTAs assist businesses with getting their goods and services into a market, they do not overcome the complex people, language and culture factors that are common in transactions and business relationships between Australia, Asia and other developing markets.<sup>134</sup>

- 2.75 The Botanical Food Company's Head of Sales Asia, Mr Craig Smith, described the challenges of exporting as an SME or any business as successful as theirs in exporting Gourmet Garden packaged herbs can be puzzle.<sup>135</sup>

Trying to make that easier is going to be better for everyone. Right now it is quite complicated and understanding what the free trade agreements really mean for those individual small businesses can be a bit of a minefield. So just simplifying the process of knowledge.<sup>136</sup>

- 2.76 Asialink Business is working across the "SME spectrum to provide tools, capability development and deep market insights to SMEs to help bridge these gaps".<sup>137</sup>

## **Leadership and management skills for exporting**

- 2.77 Global Trade Professionals Alliance submitted that Micro, Small and Medium sized Enterprises are often established by entrepreneurs and led by owner-managers who may possess certain specialised skillsets to develop their business, but who may lack general management competencies such as "financial literacy, business development skills or other core capabilities, particularly relating to global trade development".<sup>138</sup>

It is increasingly common today for a start-up to "go international" on day one of operations, either through online channels, on the basis of unsolicited orders, or as part of a conscious management decision. Opportunity abounds, but at the same time, the luxury of honing competencies in a familiar domestic market is no longer a given, and the need for business to shield an established, viable going concern in domestic markets from risk and exposure in

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<sup>134</sup> KPMG, *Submission 4*, p. 2.

<sup>135</sup> Mr Craig Smith, *Committee Hansard*, 24 July 2018, p. 20.

<sup>136</sup> Mr Craig Smith, *Committee Hansard*, 24 July 2018, p. 20.

<sup>137</sup> Asialink Business, *Submission 17*, p. 4.

<sup>138</sup> Global Trade Professionals Alliance, *Submission 22*, p. 5.

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international commercial pursuit, is no longer necessarily a matter of specific focus.<sup>139</sup>

- 2.78 The GTPA believed innovators and creators are “often not the best placed to lead a company into global expansion”, they should be able to rely on a trusted network to support their expansion into global markets.<sup>140</sup>

### **Capacity and competency required by SMEs to export**

- 2.79 The GTPA acknowledges MSMEs are often time-poor especially when driving growth and international expansion.<sup>141</sup>

They often lack sufficient scale to economically justify the full-time employment of appropriate skills for international business and rely on either external providers or an energetic and multi-tasked executive to deliver the required competencies to drive global growth.<sup>142</sup>

For most MSMEs navigating the complexity of doing business globally and maintaining a competitive edge requires the development of new skills and knowledge, as well as the ability to draw on a trusted network of skilled professionals with the required competencies to support their business to grow through global trade.<sup>143</sup>

- 2.80 The South Australian Government shared feedback from SA businesses to its TradeStart advisers that there is evidence that many SMEs, when exporting, do not avail themselves of the full benefits available under FTAs.<sup>144</sup>

The problem appears to be the general complexity of FTAs and the wide differences amongst them, especially in relation to rules of origin (RoO). Small businesses with few resources and little expertise in this area may not feel, particularly for small shipments, that it is worthwhile to spend the time required to clarify potential benefits.<sup>145</sup>

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<sup>139</sup> Global Trade Professionals Alliance, *Submission 22*, p. 5.

<sup>140</sup> Global Trade Professionals Alliance, *Submission 22*, p. 5.

<sup>141</sup> Global Trade Professionals Alliance, *Submission 22*, p. 5.

<sup>142</sup> Global Trade Professionals Alliance, *Submission 22*, p. 5.

<sup>143</sup> Global Trade Professionals Alliance, *Submission 22*, p. 5.

<sup>144</sup> Government of South Australia, *Submission 30*, p. 1.

<sup>145</sup> Government of South Australia, *Submission 30*, p. 1.

## Protection of intellectual property

- 2.81 Mr Warren Cross, Senior Legal Counsel, Cross & Co Lawyers highlighted the concerns of SMEs about intellectual property (IP) protection of their exports and the costs involved.<sup>146</sup>

...the cost of patenting a product around the world is horrendously expensive. I've seen clients spend a million dollars on a patent and then run out of money and can't promote it. One of the things about copyright is that copyright is subject to an international convention, and so, once I express something in material form by writing it down, I have international protection around the world. Unfortunately, with trademarks, copyrights and designs, each has to be registered in a separate country, and each—say, Japan or countries like that—can be very, very expensive.<sup>147</sup>

- 2.82 So for SMEs, according to Mr Cross, IP protection is a big problem because it's "very, very expensive".<sup>148</sup>

I've seen SMEs who have had to effectively pick the markets where they're going to get protection because they simply can't afford to go into the other markets...They used to be supported under the export grants scheme; they no longer are—well, they are, but only to \$50,000, which, to be honest, doesn't get you a long way.<sup>149</sup>

- 2.83 Chief Executive Officer of COYO, that produces exports dairy-free products such as coconut yoghurt, Mr Andrew Eves-Brown, raised concerns Australian companies might have about protecting their IP under FTAs.<sup>150</sup>

Another one would be the ability to have trusted information sharing between the countries with the free trade agreements without companies having to disclose all their IP.<sup>151</sup>

- 2.84 The NORTH Link representing businesses in northern Melbourne submitted that the intellectual property clauses in FTAs certainly have had a positive

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<sup>146</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 47.

<sup>147</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 47.

<sup>148</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 47.

<sup>149</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 47.

<sup>150</sup> Mr Andrew Eves-Brown, *Committee Hansard*, 24 July 2018, p. 20.

<sup>151</sup> Mr Andrew Eves-Brown, *Committee Hansard*, 24 July 2018, p. 20.

impact where DFAT has “effectively negotiates improved IP protection policies that definitely stop the copying of products and counterfeiting”.<sup>152</sup>

This works more effectively in some jurisdictions rather than others.<sup>153</sup>

There is a reported use by companies of misleading packaging, naming, advertising and design to suggest a product comes from another country such that implies a certain authenticity or tradition to the product, but it is misleading to the consumer because the product is not of the implied origin at all – this applies in-country and overseas.<sup>154</sup>

- 2.85 Mr Chris James, Executive Director, NORTH Link provided some feedback about the concerns the members of the business network had expressed about IP clauses in free trade agreements.<sup>155</sup>

I understand in some [FTAs] they are stronger than others. The view is that it's very important to have IP protection written into the free trade agreements to stop counterfeiting and copying.<sup>156</sup>

- 2.86 Winemakers' Federation of Australia highlighted intellectual property or IP as another important aspect which needs to be strengthened and considered more closely in order to assist with the protections of the wine industry's SMEs.<sup>157</sup>

Smaller businesses don't always have the resource or knowledge to navigate the complexities of protecting their IP across the breadth of export markets. The industry has experienced significant challenges with trademark squatting and adaptation to trademark regulations in export markets.<sup>158</sup>

- 2.87 The Sunshine Coast Council highlighted that intellectual property (IP) concerns continue to play a large-role in the decision-making, or even export aversion, of many businesses. The Council believes potential exporters,

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<sup>152</sup> NORTH Link, *Submission 40*, p. 2.

<sup>153</sup> NORTH Link, *Submission 40*, p. 2.

<sup>154</sup> NORTH Link, *Submission 40*, p. 2.

<sup>155</sup> Mr Chris James, *Committee Hansard*, 30 July 2018, p. 3.

<sup>156</sup> Mr Chris James, *Committee Hansard*, 30 July 2018, p. 3.

<sup>157</sup> Winemakers' Federation of Australia, *Submission 6*, p. 7.

<sup>158</sup> Winemakers' Federation of Australia, *Submission 6*, p. 7.

including small and medium enterprises can be apprehensive about IP-related issues.<sup>159</sup>

This apprehension is exacerbated in more complex markets, where many of the lodgement and enforcement mechanisms are vastly different to Australia. Council would welcome the Commonwealth Government providing more tailored solutions for small and medium sized enterprises to help navigate complicated frameworks surrounding IP in overseas markets.<sup>160</sup>

- 2.88 The Sunshine Coast Council wants the Government to include more proactive advisory-based assistance from IP Australia, and greater collaboration with industry bodies and relevant IP agencies in Australia, along with additional IP counsellors located in overseas markets.<sup>161</sup>

Organisations including, but not limited to, IP Australia can adopt a more proactive advisory mandate and work closer with relevant industry groups who can help provide member services on IP-related issues for small and medium sized enterprises.<sup>162</sup>

## Recommendation 2

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- 2.89 **The Committee recommends that the Australian Government seek to minimise non-tariff barriers to trade by identifying and addressing the range of non-tariff barriers that adversely affect trade outcomes for Australian small and medium enterprises (SMEs), and by:**

- **Providing more tailored advice from IP Australia, and business chambers or other qualified advisers, to SMEs to help them navigate complicated frameworks protecting intellectual property (IP) in overseas markets; and**
- **Assessing the level of disclosure required for compliance purposes across different FTA jurisdictions with a view to helping SMEs avoid unnecessary IP disclosures and mitigate risks of IP leakage and theft.**

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<sup>159</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>160</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>161</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>162</sup> Sunshine Coast Council, *Submission 9*, p. 4.

## Tariff market access and rules of origin

- 2.90 The peak body for Australia's international trade and logistics sectors, Freight & Trade Alliance (FTA), believed the biggest challenge for SME exporters seeking to take advantage of a free trade agreement was tariff classification.<sup>163</sup>

FTA identifies the number one problem for small business and free trade agreement utilisation is that to apply a free trade agreement you must understand tariff classification.<sup>164</sup>

This is because you need to know the tariff class to assess the general rate, the rate under the Free Trade Agreement, find any product specific rule of origin and apply the change in tariff class rule.<sup>165</sup>

- 2.91 Trade consultants KPMG cautioned that these complex Rules of Origin requirements presented an administrative challenge for SMEs to comply with trade regulations and also in coping with the number of complex processes involved.<sup>166</sup>

- 2.92 KPMG noted the challenges presented by the classifications of goods and definitions differing between countries and various overlapping FTAs.<sup>167</sup>

SMEs often struggle with properly noting the value, tariff classification and related elements, to ensure they are accessing the appropriate rules of the FTA.<sup>168</sup>

- 2.93 GrainGrowers, which is a grain farmer representative organisation with more than 17,000 members across Australia, outlined trade and market access as a key policy focus. Australian grain farmers annually grow some 48.9 million tonnes of grains, oilseeds and pulses which at the farm gate alone is worth \$14.6 billion.<sup>169</sup>

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<sup>163</sup> Freight & Trade Alliance, *Submission 23*, p. 1.

<sup>164</sup> Freight & Trade Alliance, *Submission 23*, p. 1.

<sup>165</sup> Freight & Trade Alliance, *Submission 23*, p. 1.

<sup>166</sup> KPMG, *Submission 4*, p. 2.

<sup>167</sup> KPMG, *Submission 4*, p. 2.

<sup>168</sup> KPMG, *Submission 4*, p. 3.

<sup>169</sup> GrainGrowers, *Submission 33*, p. 1.

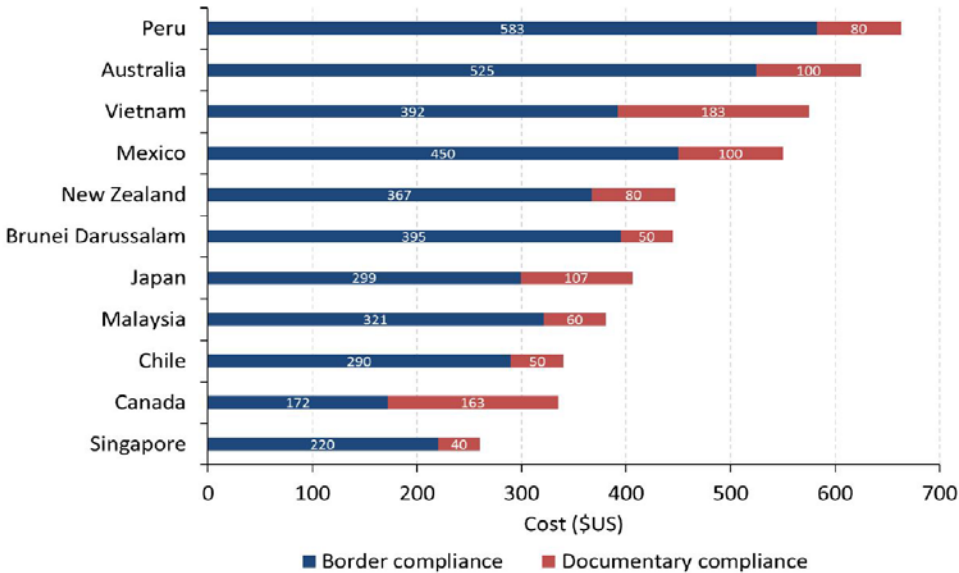
Over 70 per cent of Australia's grain production is exported, earning some \$12.2 billion in export earnings annually, and accounting for more than a quarter of all agricultural export earnings.<sup>170</sup>

2.94 GrainGrowers outlined where there are opportunities to engage in agreements which assist the competitiveness of Australian grains in international markets, it is imperative Australia does so.<sup>171</sup>

New trade agreements must be commercially meaningful and they must complement and build upon the agreements that preceded them.<sup>172</sup>

To deliver real benefits for Australian grain exporters, including SMEs, preferential trade agreements must not only deliver traditional market access improvements through tariff reductions or expanded quota access, but they must also deliver meaningful provisions for addressing non-tariff barriers to trade.<sup>173</sup>

**Figure 2.13 Import compliance by cost in TPP 11 nations-2016.**



Source: World Bank, World Development Indicators, 2016

Sources: Ai Group & World Bank, *Import compliance by cost in TPP 11 nations*, 2016.

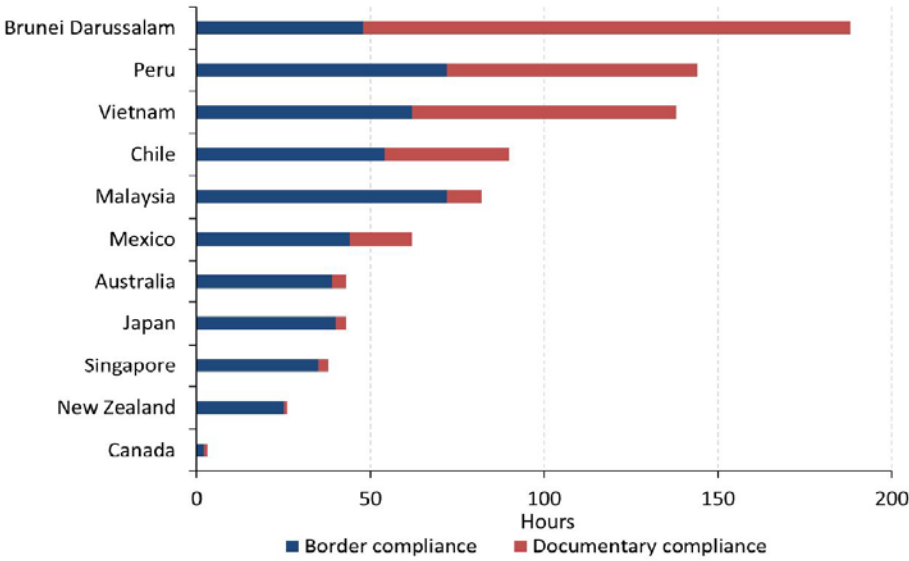
<sup>170</sup> GrainGrowers, *Submission 33*, p. 1.

<sup>171</sup> GrainGrowers, *Submission 33*, p. 1.

<sup>172</sup> GrainGrowers, *Submission 33*, p. 1.

<sup>173</sup> GrainGrowers, *Submission 33*, p. 1.

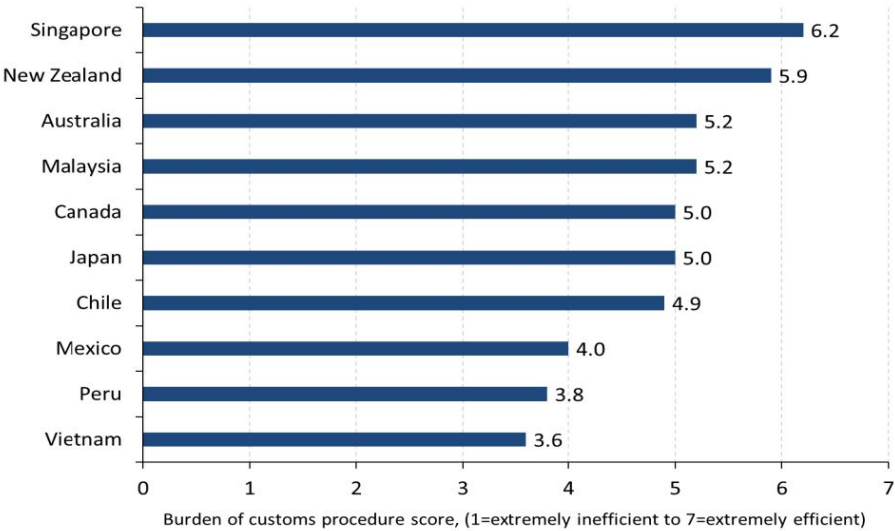
**Figure 2.14 Import compliance by hours in TPP 11 nations-2016.**



Source: World Bank, World Development Indicators, 2016

Sources: Ai Group & World Bank, Import compliance by hour in TPP 11 nations, 2016.

**Figure 2.15 Burden of customs procedures in TPP 11 nations-2017**



Note: Score for Brunei not available.

Source: WEF, Global Competitiveness Report, 2017

Source: Ai Group, Submission 34, Burden of customs procedures in TPP 11 nations-2017.



- 2.95 The Department of Industry, Innovation and Science submitted that tariff market access outcomes are often the most visible and widely reported elements of FTAs. DIIS claimed it plays an active role in negotiating improved market access for Australia's industrial and resources exports under all existing FTAs, including the recent bilateral agreements with China, Japan and South Korea.<sup>174</sup>
- 2.96 On 1 January 2018, DIIS outlined that thousands of tariffs were cut under the China-Australia FTA (ChAFTA) and the Korea-Australia FTA (KAFTA), while thousands more were cut under the Japan-Australia Economic Partnership Agreement (JAEPA) on 1 April 2018.<sup>175</sup>
- These significant tariff reductions will provide Australian SMEs new opportunities to increase trade with our three leading North Asian trading partners, contributing to new jobs and economic growth.<sup>176</sup>
- 2.97 Importantly according to DIIS, tariff elimination under Australia's implemented FTAs also provides benefits to SMEs by facilitating cheaper imports, including input materials, and an improved ability to participate in global value chains.<sup>177</sup>
- 2.98 Research by DIIS' Office of the Chief Economist showed that importing is also a "strong, positive determinant of exporting, as businesses use imported inputs for export production". Results for Australian SMEs show that relative to non-importers, importers are around 19 per cent more likely to be exporters.<sup>178</sup>

### **Export documents such as Rules of Origin and Certificates of Origin**

- 2.99 The ACCI outlined that Rules of Origin are a non-tariff trade barrier created and maintained by Governments around the world – including Australia.<sup>179</sup>
- 2.100 The ACCI states Rules of Origin are used to support the gathering of trade statistics, administration of tariffs and anti-dumping regimes along with preferential access to trade agreements.<sup>180</sup>

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<sup>174</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 10.

<sup>175</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 10.

<sup>176</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 10.

<sup>177</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 10.

<sup>178</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 10.

<sup>179</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 15.

- 2.101 The ACCI believes implementation of Rule of Origin also bring with them administrative costs and liability upon industry with penalties for false and misleading statements for non-compliance.<sup>181</sup>

To assist with these issues, in the 1890's Governments of exporting nations created a globally recognised system to "certify" goods as a statement between Governments attesting to the origin authenticity of the goods in question. This system continues to be the predominant system used by Governments around the world. It is an essential component of international trade and needs to be more deeply understood.<sup>182</sup>

- 2.102 Identifying the origin of goods, according to the ACCI, has allowed governments to apply border controls and generate revenue through taxation of goods moving across the frontier between nations.<sup>183</sup>

It has also allowed a mechanism for the application of differential and preferential treatment of goods from allies and commercial partners, as well as the exclusion or application of penalties to goods from less favoured nations...<sup>184</sup>

- 2.103 Asialink Business submitted how understanding the complex documentation requirement around 'Rules of Origin' (RoOs) can be "especially cumbersome, time-consuming and a costly exercise for SMEs" and that these "documentation requirements deters them from seeking to apply a lower tariff rate on their exports as negotiated under an FTA".<sup>185</sup>

- 2.104 While Australia's FTAs offer opportunities for SMEs to access preferential tariffs in key markets, as well as the ability to source cheaper products from FTA partners, both DIIS and DJSB acknowledge that SMEs may have difficulty accessing these benefits.<sup>186</sup>

In particular, SMEs have indicated difficulty with understanding and complying with rules of origin and certification requirements under FTAs.<sup>187</sup>

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<sup>180</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 15.

<sup>181</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 15.

<sup>182</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 15.

<sup>183</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 15.

<sup>184</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 15.

<sup>185</sup> Asialink Business, *Submission 17*, p. 3.

<sup>186</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 11.

<sup>187</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 11.

- 2.105 Mr Doug Ferguson, Partner in Charge, Asia and International Markets, and Deals Advisory Partner, KPMG, advises that the Government needs to centralise the trade education process and simplify the paperwork required of exporters.<sup>188</sup>

It is centralise and simplify the education process online and simplify the documentation process for Certificates of Origin and trade paperwork. This enables companies to do what they do best. They need to be able to find information quickly. It needs to be in plain English and easy to access. They need to complete online documentation that doesn't have all of the manual issues that come with technical defaults.<sup>189</sup>

- 2.106 The Managing Director of wine exporter Inland Trading Company, Mr Greg Corra, outlined how arduous the paperwork was for his business to manage the export of product on behalf of 75 wineries, currently to 58 international markets.<sup>190</sup>

We're participating in every one of the markets with a free trade agreement...The complexities have taken our office to the level where we have one person who only does compliance with free trade agreements; that's all they do. Even when you think you've complied, if you don't dot an i or cross a t, they can reject your documents. Not only can they reject them, but the cost to redo your documentation is immense.<sup>191</sup>

- 2.107 Mr Corra spoke of an “amazing incident” recently when one the customs areas checking the documents did not like the numbers that Inland Trading Co. produced in China.<sup>192</sup>

Why? Because one of the numbers was a four. They did not like the numbers on the documents. That's absurd, to say the least, but when you see it happen—it cost our importer RMB28,000 [about AUD\$5,490] to get it fixed. Not only did it cost them; it also delayed our shipment and, clearly, delayed our payments.<sup>193</sup>

- 2.108 Mr Corra revealed at the public hearing a pile of more than 50 pages of paper documents required to support an export of wine to South Korea.

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<sup>188</sup> Mr Doug Ferguson, *Committee Hansard*, 2 August 2018, p. 7.

<sup>189</sup> Mr Doug Ferguson, *Committee Hansard*, 2 August 2018, p. 7.

<sup>190</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 1.

<sup>191</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 1.

<sup>192</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 1.

<sup>193</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 1.

Just so you're aware, this level of documentation is for one market—South Korea—for one export. Every document here has to be provided to them, and in hard copy. Not only do we have to produce all of these documents, but we can't send those documents to them in soft copy; they have to be in hard copy. They will not be accepted in soft copy. Some of the documents in here cost my company money every time they're generated.<sup>194</sup>

It costs us not only physical money but also staff time. So the implications of free trade agreements for our company—whilst we've seen our business grow, our business most certainly has seen increased costs, and the level of costs that we're experiencing varies each time. We have moving goalposts. Sometimes, particularly in China, we'll think we've got all the documents that are needed, then they'll move the goalpost. With that moving goalpost, there's obviously a delay.<sup>195</sup>

- 2.109 The Victorian Government points to the various business surveys, including the Australian International Business Survey (AIBS) undertaken by Austrade, that have contributed to the understanding of the impediments facing SMEs in international markets and issues which may hinder their use of FTAs. For example, firms have reported in the survey of the high perceived compliance costs associated with “inconsistent rules of origin (RoO) requirements as a disincentive to using FTAs”.<sup>196</sup>

We welcome the efforts of DFAT to establish more consistent RoO requirements to minimise the costs facing businesses, however negotiators must be vigilant in future FTAs to ensure compliance rules and requirements are consistent across all agreements.<sup>197</sup>

## *Rules of Origin*

- 2.110 A key part of Australian FTAs, according to the Chamber of Commerce and Industry of Western Australia, is a preferential treatment such as the reduction or elimination of tariffs on goods being available for exporters that satisfy the Rules of Origin (RoO) required under each FTA.<sup>198</sup>

RoOs are very complex and difficult to understand and businesses need help to understand how to implement them, especially at SME level as they often

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<sup>194</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 1.

<sup>195</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 1.

<sup>196</sup> Victorian Government, *Submission 35*, p. 7.

<sup>197</sup> Victorian Government, *Submission 35*, p. 7.

<sup>198</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

do not have the resources or time to investigate these options. RoOs also differ between some FTAs, therefore requiring business to investigate all options to determine which FTA is best suited to them.<sup>199</sup>

### *Certificates of Origin*

- 2.111 Certificates of Origin, according to the Chamber of Commerce and Industry of Western Australia (CCI), are issued to exporters by an authorised third-party and are important for demonstrating compliance with RoO requirements.<sup>200</sup>

The burden of proof for demonstrating the origin of goods lies with the importer as it is their responsibility to identify the origin of the supply chain to be able to access preferential treatment.<sup>201</sup>

- 2.112 In Australia, as in many jurisdictions, the signatory to the 1923 *Geneva Convention Relating to the Simplification of Customs Formalities*, the Australian Government's authority to scrutinise exporter's claims and issue Certificates of Origin has been delegated to the ACCI and the Australian Industry Group (AiG). Both of these groups are in turn required to maintain accreditation currency scrutinised by the Joint Accreditation Scheme for Australian and New Zealand.<sup>202</sup>

- 2.113 The Australian Government has also mandated the use of ISO 17020:1998 standards in relation to ACCI and AiG's issuance of Certificates of Origin.<sup>203</sup>

This is an extremely costly but worthwhile standard of documentary issuance, which is mandatorily audited by the Joint Accreditation System of Australia and New Zealand. This accreditation provides the necessary confidence in the third party issuing system so that PTA parties can accept the certification process related to conferring concessions under Preferential Trade Agreements.<sup>204</sup>

- 2.114 The WFA Chief Executive, Mr Anthony Battaglione, believed a growing workload combined with a relatively new Chinese Customs bureaucracy at

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<sup>199</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>200</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>201</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>202</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 16.

<sup>203</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 16.

<sup>204</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 16.

ports may have been behind the delays clearing Certificates of Origin for wine exports earlier in 2018.<sup>205</sup>

But what did happen back in March was that the Chinese bureaucracy underwent a massive restructure and so the group that was responsible for imports, AQSIQ, no longer existed. It was absorbed into the bigger general administration of China customs. So we had a lot of people with different cultures in charge of imports and regulation at the border.<sup>206</sup>

2.115 Mr Battaglione recalled the issue was mostly around Certificates of Origin.<sup>207</sup>

You get Certificates of Origin when you have got a free trade agreement. It shows that all your product comes from Australia; therefore, you can get the preferential tariff rate, and there are requirements where you can verify those in market of course by the authorities. Normally you would get 10 per cent to 20 per cent verification. Under the new regime, it was increased to 60 per cent, 70 per cent, 80 per cent. That was a massive increase, so we got massive delays at the border...But also the massive increase of exports mean that there's a lot more product going in. There's still the same number of staff that they've got to administer it...<sup>208</sup>

2.116 The ACCI submitted, on a weekly basis, it provides support to Australian exporters and the corresponding importers (often in the horticultural field, but also minerals, processed foods, soft commodities, livestock and manufactured products) that are being investigated by foreign government authorities about their claims of satisfying the preference conferring criteria under the terms of Australian trade agreements.<sup>209</sup>

2.117 Both ACCI and Ai Group have maintained this standard and continue to meet the audits, and as a result according to the ACCI, Australia has a "world-class system of issuance of these trade documents".<sup>210</sup>

While we appreciate the arguments of other groups in terms of wanting to remove what could be regarded as unnecessary paperwork by those that do not have a strong understanding of the system, we would also like to point out some examples of what happens when things go wrong... the globally

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<sup>205</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 5.

<sup>206</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 5.

<sup>207</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 5.

<sup>208</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 5.

<sup>209</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 16.

<sup>210</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 16.

established certificate of origin system is trade facilitating because it is an accepted and trusted system that reduced costs to exporters as well as providing them with legal defences when things go wrong.<sup>211</sup>

## Non-tariff barriers and SMEs

2.118 The departments of Industry, Innovation & Science (DIIS) and of Jobs & Small Business (DJSB) submitted that as tariff barriers have fallen, non-tariff barriers have become increasingly visible as impediments to international trade. As a consequence, Australia seeks to negotiate outcomes which address non-tariff measures in FTAs, such as on standards, technical regulations and conformity assessment procedures, and improved commitments on cooperation and transparency around trade.<sup>212</sup>

For example, all three North Asian FTAs offer advanced rulings to exporters as to whether their goods meet the tariff classifications and rule of origin requirements. Advanced rulings can provide certainty to businesses and reduce risks of delays at the border. However, the impact of these commitments for businesses, and how they can access the benefits, appears to be less widely reported and understood.<sup>213</sup>

2.119 Despite expanded market access for service providers, Asialink Business observed there are a number of non-tariff barriers that continue to prevent many SMEs from accessing FTA-related export opportunities.<sup>214</sup>

2.120 Business SA submitted the challenges in North Asia beyond FTAs for its members that are exporters.<sup>215</sup>

While FTAs are very important for improving the competitiveness of Australian exporters, the reality in countries such as China is that barriers beyond the border are still effective in restricting market access, particularly for SMEs.<sup>216</sup>

2.121 KPMG highlighted the challenges for small and medium exporters to overcome documentary and technical non-tariff barriers which require SMEs

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<sup>211</sup> Australian Chamber of Commerce and Industry, *Submission 28*, pp. 16-17.

<sup>212</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 11.

<sup>213</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 11.

<sup>214</sup> Asialink Business, *Submission 17*, p. 3.

<sup>215</sup> Business SA, *Submission 15*, p. 1.

<sup>216</sup> Business SA, *Submission 15*, p. 1.

to navigate “excessive paperwork and in-country legal requirements (often in foreign languages), such as licensing and labelling laws, in order to access the markets to which they propose to export”.<sup>217</sup>

- 2.122 NORTH Link, representing northern Melbourne businesses, especially those in the food sector, warned that non-tariff barriers and quarantine and biosecurity laws have been used to block Australian products, as well as changing rules around paperwork.<sup>218</sup>

There is also concern from some local manufacturers that an FTA with the European Union (EU) could lead to a flood of cheap, heavily subsidised European dairy products into Australia although others pointed out that products such as olive oil might gain easier access to the EU.<sup>219</sup>

- 2.123 Mr Alan Oppenheim, the Managing Director of Ego Pharmaceuticals Pty Ltd outlined his challenges with some “ludicrous” non-tariff barriers in the European Union and United Kingdom ahead of any FTA.<sup>220</sup>

It would be good if the government could help reduce the non-tariff barriers, as Simon said. In particular, pharmaceuticals and cosmetics are two big areas. Australia is big in both of those boxes, not just to China but to the UK and Europe. There are non-tariff barriers in those boxes to Europe and the UK right now and that's all kind of splitting based on whatever is happening with Brexit. The fact that when we export pharmaceuticals to the EU and the UK we have to get a qualified pharmacist to sign them off in the EU is ludicrous. Pharmaceuticals made in Australia have to be labelled 'made in the EU' by EU law, which is ludicrous and misleading.<sup>221</sup>

## Compliance and export inspections

- 2.124 Ms Barbara Cooper, Assistant Secretary, Meat Exports Branch, Exports Division, Department of Agriculture and Water Resources explained that auditing is one of the assurance activities that the department does. Ms Cooper admitted to much less authority in regards to how auditing may work for citrus and horticulture exports, but explained how the audit process for meat exports works.<sup>222</sup>

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<sup>217</sup> KPMG, *Submission 4*, p. 3.

<sup>218</sup> NORTH Link, *Submission 40*, p. 2.

<sup>219</sup> NORTH Link, *Submission 40*, p. 3.

<sup>220</sup> Mr Alan Oppenheim, *Committee Hansard*, 30 July 2018, pp. 18-19.

<sup>221</sup> Mr Alan Oppenheim, *Committee Hansard*, 30 July 2018, pp. 18-19.

<sup>222</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 7.



[The department] over the last 20 years or so moved to what we refer to as a verification or assurance model where we have removed inspectors from the system but now, to enable us to assure that we're meeting importing country requirements, use audits. The audits will then be on the basis of the importing country requirement or the risk associated with that product. So the products are all different in the meat space. We have staff on plant at an abattoir. We audit the system separately as well. Each commodity does it differently based on the risk.<sup>223</sup>

## Harmonisation codes for exports

2.125 Ms Barbara Cooper, an Assistant Secretary from the Department of Agriculture and Water Resources provided some hope in regard to the manual documentation processes.<sup>224</sup>

With regard to the harmonisation codes, as I understand it, the first six digits of that are internationally harmonised. It's a World Customs Organization code set. The those six digits, however, are so high level that they're actually not useful for most countries to do any form of risk assessment by using those that code set, because the first six digits will basically just identify that it's edible meat. You might have different risks applied to that. In fact, Australia has a version called the AHC. The first six digits of that will be the harmonised standard code from the WCO, and then we add to it so that we can identify more detail in the product.<sup>225</sup>

2.126 The Australian harmonised code set, which Ms Cooper explained is largely managed by Customs or now Border Force, is used predominately by the Bureau of Statistics for reporting purposes.<sup>226</sup>

Australia has its version using those six digits, and then Japan, China and the US will have their own version of that in their countries. We only need to use the Australian harmonised code for product when we're exporting. We provide that as a data field to the Australian Border Force. But, if we're providing it for the purposes of risk accessing or identifying product with another country, we may have to modify it to their system.<sup>227</sup>

## Growing cost of documentation

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<sup>223</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 7.

<sup>224</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 7.

<sup>225</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 7.

<sup>226</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 7.

<sup>227</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 7.

- 2.127 Ms Barbara Cooper, an Assistant Secretary from the Department of Agriculture and Water Resources outlined the complexity of the documentation process due to the need for a whole series of commercial documents required by meat exporters besides Certificates of Origin.<sup>228</sup>

Certificate of Origin, I think, in Australia is largely issued by the chambers of commerce or under some accreditation arrangement. The exporter declaration is in order to get the product out of Australia to pass the Australian customs requirements. The export certificate that we issue is actually to get the product into the importing country. But we do issue an export permit for a lot of commodities where there is a requirement for it to meet a certain set of conditions.<sup>229</sup>

- 2.128 Ms Cooper said the Department of Agriculture and Water Resources was doing some work, predominantly with the Australian Border Force, to simplify the process and hopefully eliminate the need for postage or in person visits to collect required export documents. Exporters have been able to access documents direct from Customs or the Australian Border Force since 1998 if they wish, and many do, according Ms Cooper, go direct if it is much more efficient.<sup>230</sup>

For a lot of our exports now, you can apply using the same data that you provide to us with a couple of additional pieces of data. We will then go to Border Force and seek the export declaration, so it's actually all done in one message through one set of data that's coming in. There are some improvements. Some of our commodities would be largely automated. We do have a set of food groups now where a lot of countries are introducing certification for low-risk foods. That is an emerging issue for us. It's not something that we have been on the front foot for in terms of providing. Recently, we introduced a system where the remaining manual documentation that we have will be available through an electronic system. That, hopefully, will provide greater advantage and benefit for those exporters, because a lot of them in those commodities are what you would probably describe as SMEs. We are doing some work to try to improve that and using, wherever we can, automation to eliminate the need for postage or to visit the office. We'll be able to print the certificate in their office.<sup>231</sup>

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<sup>228</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 7.

<sup>229</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 7.

<sup>230</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, pp. 7-8.

<sup>231</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 7.

2.129 Ms Cooper said the Department of Agriculture and Water Resources was aware of the documentation challenges for exporters away from capital cities.

We have documentation offices in the capital cities. But if you are in Dubbo, for instance, you would have to get your documents delivered from our regional office to your establishment or head office.<sup>232</sup>

2.130 Mr Simon Smalley, Assistant Secretary, Strategic Trade Policy Branch, Trade and Market Access Division, Department of Agriculture and Water Resources outlined the greater acceptance of digital documentation for exports by trading partners but he warned progress is slow.<sup>233</sup>

Another part of our ongoing attempts to improve the world for exporters is in trying to move a range of these things towards electronic exchanges with trading partner countries. That is happening at a global level for plant products. It is happening bilaterally from us and through the department. But those kinds of things take a long time. In some circumstances, we have to provide both an electronic certificate on food safety and the hard-copy one. So these are things that are just taking a little bit of time to move. But, again, it's something that Australia has been pressing very hard on in international forums and bilaterally.<sup>234</sup>

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<sup>232</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 8.

<sup>233</sup> Mr Simon Smalley, *Committee Hansard*, 17 September 2018, p. 8.

<sup>234</sup> Mr Simon Smalley, *Committee Hansard*, 17 September 2018, p. 8.

**Figure 2.16 Examples of non-tariff measures & FTAs by country**

Country	Issue
USA (AUSFTA)	Buy America program undermined the access to US Government Procurement that Australian exporters were promised
USA and potentially Mexico and Canada (AUSFTA and TPP)	Recently proposed changes to the security arrangements for air freight to, through and over the USA could increase costs and delays for exporters who use airfreight to the US and other North American countries
USA (AUSFTA)	Change in recognition of standards assessment body meant that Australian manufacturers of wheelchairs could no longer sell into this lucrative market. It is important to note that on this occasion DFAT was able to reverse this decision and the exporter could retain the market.
Thailand (TAFTA)	Additional excise on passenger vehicles nullified any Australian advantage from the removal of an 80% tariff.
Thailand (TAFTA)	Stone fruit achieved an immediate ZERO duty under TAFTA , but then Thailand changed the quarantine regulations and the market was completely closed for 3 years . At the time of closure all stone fruit and cherries were shipped to Thailand by AIR. This was no longer possible as Thailand insisted on sea freight only.
Indonesia (AANZFTA)	Indonesia was insisting on pre-shipment inspections for certain products which is creating increased costs and time delays for exporters. This has since been resolved.

Source: Ai Group, Submission 34, Examples of non-tariff measures & FTAs by country

### ***Australia's standards and conformance infrastructure***

2.131 DIIS has policy oversight of Australia's standards and conformance infrastructure, and manages the Government's relationship with Australia's Technical Infrastructure Alliance (TIA), consisting of Standards Australia (SA), the National Association of Testing Authorities (NATA), the Joint Accreditation System of Australia and New Zealand (JAS-ANZ) and the National Measurement Institute (NMI).

- 2.132 Ensuring a high quality standards and conformance infrastructure is pivotal to the safety and wellbeing of Australians, as well as breaking down non-tariff barriers to trade, according to DIIS. DIIS has an ongoing and productive working relationship with each of Australia's peak standards and conformance bodies which is to the benefit of industry and government alike.<sup>235</sup>

Everyday commercial transactions and international trade are underpinned by the support of a standards and conformance infrastructure – from using a credit card, clipping in a seatbelt, to using a bicycle helmet. The maintenance of a world class, internationally-recognised technical infrastructure supports the internationalisation of the Australian economy by aligning with international standards and promoting the acceptance of conformity assessment data thereby helping to facilitate trade.<sup>236</sup>

- 2.133 To support Australia's standards and conformance infrastructure, DIIS delivers the Support for Industry Service Organisations (SISO) Programme which provides funding for international representation and national interest activities undertaken by Australia's two peak standards and conformance bodies: Standards Australia and the National Association of Testing Authorities.<sup>237</sup>

This funding allows Australian businesses to influence and keep pace with international standard-setting, which can pave the way for greater alignment of standards between Australia and our current and/or future FTA partners.<sup>238</sup>

- 2.134 The Australian Government has adopted the principle that 'if a system, service or product has been approved under a trusted International Standard or risk assessment, Australian regulators should not impose any additional requirements unless it can be demonstrated that there is a good reason to do so.'<sup>239</sup>

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<sup>235</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, pp. 11-12.

<sup>236</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 12.

<sup>237</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 12.

<sup>238</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 12.

<sup>239</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 12.

This complements the efforts undertaken to achieve greater regulatory alignment in FTAs and reduce costs and delays for exporting Australian businesses.<sup>240</sup>

- 2.135 DIIS outlined its engagement in a range of regional fora to support Australia's standards and conformance infrastructure and pursue trade liberalisation and facilitation with key trading partners. DIIS also represents Australia on the APEC Sub-Committee on Standards and Conformance (SCSC).<sup>241</sup>

APEC SCSC helps to reduce the negative effects that countries' differing technical standards and conformance arrangements have on trade and investment flows in the Asia-Pacific region.<sup>242</sup>

- 2.136 DIIS supports DFAT through the negotiation and implementation of Chapters relating to Technical Barriers to Trade, which is a mechanism that supports Parties to uphold obligations of the WTO TBT Agreement – ensuring that technical regulations, standards and conformity assessment procedures do not create unnecessary barriers to trade.<sup>243</sup>

The importance of reducing non-tariff barriers to trade is gaining increasing importance through FTAs.<sup>244</sup>

### *Reducing 'behind the border' costs in APEC economies*

- 2.137 DFAT highlighted that Australia is working to reduce 'behind the border' costs in APEC economies and to help integrate SMEs into global value chains.<sup>245</sup>

The latter involves strengthening SMEs' export capabilities and capacity to internationalise business operations. Capacity building activities offered by APEC and supported by Australia help economies to develop and adopt policies that encourage SME firms to compete in international markets.<sup>246</sup>

<sup>240</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 12.

<sup>241</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 12.

<sup>242</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 12.

<sup>243</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

<sup>244</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

<sup>245</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 14.

<sup>246</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 14.

- 2.138 APEC also sponsors business engagement events and workshops to assist SMEs to build networks and partnerships that facilitate trading across borders.<sup>247</sup>

## Opportunities for SMEs with FTAs

### Impact of preferential tariffs on pricing and competition

- 2.139 The Export Council of Australia submitted that the removal or lowering of tariffs by FTAs impacts on the price of Australian exports. Depending on the FTAs and what a partner market already has in place, the ECA explained how an FTA with Australia can give Australian exporters a price advantage or reduce the price advantage competitors have in that market (or a combination of both).<sup>248</sup>

Lower prices can have indirect benefits in-market for the exporter, especially where the tariff cut is substantial. Where lower prices lead to higher volumes, these higher volumes mean the exporter can enjoy economies of scale and negotiate lower freight and logistics costs. This means that not only does the exporter enjoy increased sales, but also increased margins on those sales.<sup>249</sup>

- 2.140 But the ECA warned it is important to bear in mind that for most products, tariffs are historically low and therefore lessening the benefits an FTA may have on lowering prices.<sup>250</sup>

For Australian exporters, who generally have to compete on value rather than price, the tariff reductions on many product lines will be welcomed but not transformative. And for those sectors that do gain a significant price advantage due to an FTA, it is important to remember that advantage will inevitably be time-limited.<sup>251</sup>

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<sup>247</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 14.

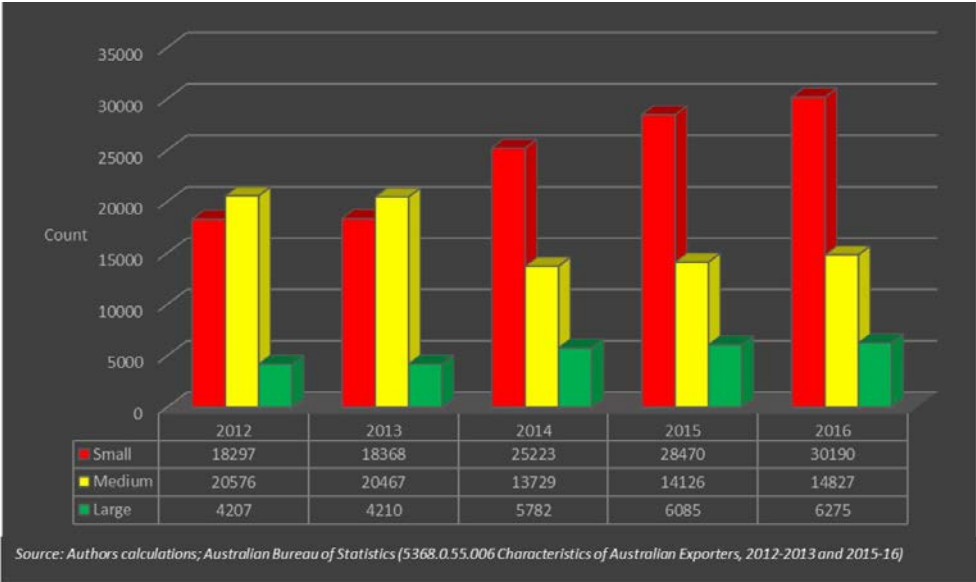
<sup>248</sup> Export Council of Australia, *Submission 24*, p. 4.

<sup>249</sup> Export Council of Australia, *Submission 24*, p. 4.

<sup>250</sup> Export Council of Australia, *Submission 24*, p. 4.

<sup>251</sup> Export Council of Australia, *Submission 24*, p. 4.

Figure 2.17 Total number of Australia exporters by size of business, 2012-2016.



Sources: Dr Di Lieto & Dr Treisman, Submission 7 & ABS Characteristics of Australian Exporters, 2011-13 and 2015-16, Total number of Australia exporters by size of business, 2012-2016.

Digital opportunities for SME exporters

2.141 The departments of Industry, Innovation & Science (DIIS) and of Jobs & Small Business (DJSB) submitted the proliferation of online tools and digital platforms is creating new opportunities for SMEs to participate in the global economy.<sup>252</sup>

Critically, digital platforms can assist SMEs to establish a virtual international presence, provide improved access to support services and market intelligence, and the opportunity to sell products internationally through established online marketplaces like eBay and Alibaba.<sup>253</sup>

2.142 The growth of these digital platforms, according to DIIS and DJSB, means that even the smallest companies have the potential to access, compete and

<sup>252</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, Submission 31, p. 7.

<sup>253</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, Submission 31, p. 7.



export goods and services to global markets alongside the largest multinationals.<sup>254</sup>

In addition, digital technologies are providing the capability for SMEs to participate in global value chains by supplying a single component rather than designing, building and distributing the whole product or service.<sup>255</sup>

- 2.143 The Government agencies predict more opportunities will emerge provided by new and emerging digital technologies, as well as through global data flows, have the potential to provide further significant benefits to SMEs which will assist them to better leverage Australia's FTAs.<sup>256</sup>

The Government has acknowledged the importance of digital technologies to the future of the global economy and trade flows through its Digital Economy Strategy. Critically, this Strategy will benefit SMEs by maximising access to data and digital services, reducing barriers to exports of digital products and services, and addressing regulatory barriers on data flows.<sup>257</sup>

- 2.144 Cross & Co Lawyers submitted advice from American entrepreneur, venture capitalist, Mr Peter Theil, who founded PayPal, suggesting SMEs "start small, find a niche, then scale up".<sup>258</sup>

This vital point must be carefully considered. Australia SMEs in the technology space who fail to internationalise, will put at risk their domestic markets and their very existence...The many Australian SMEs who have become global niche players bears evidence to what is possible. In a globally connected world, internationalisation is the catalyst for SME productivity growth. This in turn will create higher paid, higher value employment.<sup>259</sup>

- 2.145 The Chief Executive Officer of Global Trade Professionals Alliance, Ms Lisa McAuley, insists Australian businesses need to be aware that the context of global trade is changing rapidly.<sup>260</sup>

I think the most important thing to think about here is increasingly, new services and e-commerce offerings will be digital and born global—that is,

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<sup>254</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 7.

<sup>255</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 7.

<sup>256</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 8.

<sup>257</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 8.

<sup>258</sup> Cross & Co Lawyers, *Submission 19*, p. 2.

<sup>259</sup> Cross & Co Lawyers, *Submission 19*, p. 2.

<sup>260</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, p. 13.

companies will be global from day one, particularly MSMEs. This provides significant opportunities for Australian businesses to engage in international trade markets, yet our understanding of digital services and ecommerce offerings in a policy landscape needs to catch up with where businesses are going and the future opportunities that this presents them.<sup>261</sup>

- 2.146 According to DIIS, the Government is developing a Digital Economy Strategy (the Strategy), which will set out how government, business and the community can work together to maximise the opportunities of the new technologies offer Australia's industries, workforce and communities.<sup>262</sup>

The Strategy sets out a forward plan to ensure Australia has an open, competitive and digitally enabled economy that is responsive to rapid technological change.<sup>263</sup>

## Digital trade and e-commerce

- 2.147 Trade consultants KPMG submitted how important the significant role that e-commerce plays in Australia's SME export story. KPMG highlighted the exponential growth in consumers' utilisation of e-commerce platforms, particularly in the use of mobile devices.<sup>264</sup>

To give a sense of the scale of this growth, Asia Pacific mobile internet penetration is currently estimated at 41 per cent and is expected to rise to 63 per cent by 2025, whilst three of the top five smartphone markets are Asian.<sup>265</sup>

- 2.148 KPMG noted an increasing number of Australian SMEs view e-commerce channels as a quick, simple way to engage with customers in Asian markets and distribute bulk volumes of goods at a much lower cost than traditional sales channels.<sup>266</sup>

In our experience, SME e-commerce exporters encounter a range of unique challenges. This includes reduced oversight and control of the foreign market supply chain (including last mile logistics), engagement with local customers

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<sup>261</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, p. 13.

<sup>262</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

<sup>263</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

<sup>264</sup> KPMG, *Submission 4*, p. 10.

<sup>265</sup> KPMG, *Submission 4*, pp. 10-11.

<sup>266</sup> KPMG, *Submission 4*, p. 11.

and potential damage to their brand and reputation (through tampering, delays or failed order deliveries).<sup>267</sup>

2.149 KPMG sees a role for Government and private sector advisors to make a real impact in tackling some of these issues by educating e-commerce exporters to understand the practical implications of domestic market dynamics and develop sustainable relationships with viable in-country partners.<sup>268</sup>

2.150 According to Melbourne academic with expertise on the impact of FTAs on corporations, Professor Gabriele Suder, submitted that FTA negotiations and the preceding and following support initiatives need to be designed and strengthened to serve SMEs in the e-commerce space.

SMEs that are increasingly using the Internet as a channel for doing business, accompanying the increasing preference to use the Internet and e-commerce to make online web purchases. They may also specifically consider the varying operation models of the growing number of e-commerce platforms and marketplaces.<sup>269</sup>

2.151 Professor Suder highlighted an EU example as a benchmark, of a common European e-payment scheme that allows any merchant or SME present on the Internet to receive payments from consumers securely and efficiently. These benefits, according to Professor Suder, are available to all companies conducting cross-border business or operating locally.<sup>270</sup>

2.152 Professor Suder highlighted the rise of the 'Born Globals' high tech firms that are often SMEs in size.<sup>271</sup>

"Early and rapidly internationalized structures can be found in Born Globals, that is, firms that are international by 'birth', such as global start-ups or instantly globalizing high-technology firms, online services and IT (information technology) security solutions.<sup>272</sup>

These corporations, often of SME size, rely heavily on their network structure and the diversity of the value added of each component of this structure:

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<sup>267</sup> KPMG, *Submission 4*, p. 11.

<sup>268</sup> KPMG, *Submission 4*, p. 11.

<sup>269</sup> Professor Gabriele Suder, *Submission 3*, p. 4.

<sup>270</sup> Professor Gabriele Suder, *Submission 3*, p. 4.

<sup>271</sup> Professor Gabriele Suder, *Submission 3*, p. 4.

<sup>272</sup> Professor Gabriele Suder, *Submission 3*, p. 4.

advantages in the use of resources, procurement, distribution and cross-border sales characterize this form of diversification and corporate risk reduction.<sup>273</sup>

- 2.153 At the same time, Born Globals need to be run with a global vision, according to Professor Suder, and a network relying on the ‘know your customer, your supplier and your distributor’ principles more than traditionally internationalizing firms.

...given entrepreneurs’ increasing awareness of the value creation that is possible through harmonized networks of transportation and communications, of market expertise through the proximity of European markets, and cross-cultural competencies.<sup>274</sup>

### ***More than 2000 Australian brands retailing on Alibaba***

- 2.154 The Director of Corporate Affairs, Alibaba Group Australia and New Zealand, Mr James Hudson, introduced the growth of e-commerce giant Alibaba from its beginnings in founder Jack Ma’s apartment with 17 co-founders into 1990 to an online retail platform with more than 627 million mobile monthly active users on its 20 to 30 different retail marketplaces in China.<sup>275</sup>

...in 24 hours alone, during the 11.11 Global Shopping Festival, or Singles Day, the 140,000 participating merchants from around the world generated more than US\$25.3 billion in gross merchandise volume.<sup>276</sup>

- 2.155 Mr Hudson shared Jack Ma’s speech about the changing face of world trade at a WTO public forum in Geneva.<sup>277</sup>

...in the past, global trade has traditionally been dominated by multinationals, which has benefited only certain countries and industry sectors, but the future of world trade is going to be about the small businesses enabled by e-commerce. E-commerce has changed the landscape to allow more inclusive trade opportunities for SMEs.<sup>278</sup>

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<sup>273</sup> Professor Gabriele Suder, *Submission 3*, pp. 4-5.

<sup>274</sup> Professor Gabriele Suder, *Submission 3*, p. 5.

<sup>275</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

<sup>276</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

<sup>277</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

<sup>278</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

- 2.156 Mr Hudson believes online retail marketplaces such as Alibaba have enabled small businesses to be part of international trade like never before—in some cases, eliminating the need to have a physical presence in the new markets they are testing and mitigating some of the challenges, risks and expenses they may face by a traditional trade.

There's no doubt Australian products continue to grow in popularity with China's consumers, who value Australia's strong country brand and a reputation for high-quality products, particularly in the healthcare, wine, snack foods, mother and baby, natural cosmetics and, increasingly, fresh food categories.<sup>279</sup>

- 2.157 Mr Hudson shared the biggest-selling Australian products on Alibaba are: healthcare products and mother and baby products, which includes infant formula. He said snack foods are popular even though the public in China requires high levels of trust.<sup>280</sup>

Wine is popular. Wine Australia have a store in our marketplace selling mostly Australian-brand wine—SME-brand wine, small boutique wineries.<sup>281</sup>

On our marketplaces, those particular product categories require a significant level of trust from the consumer that the products are safe. The Tmall marketplace enables the consumers to actually interface with the businesses directly because they're running the flagship stores. So there is a level of trust from the consumer in the marketplace that they're getting authentic products from the brand that is supplying those products.<sup>282</sup>

- 2.158 Inspired by this growth, Jack Ma opened Alibaba's regional headquarters in Australia in February 2016, Mr Hudson shared as evidence of Alibaba's commitment to support and nurture the growth of Australian SMEs in their pursuit of global opportunities.<sup>283</sup>

Since then, sales of Australian products on Timor Global have increased significantly. The growing demand has lifted Australia's ranking from fifth to third place in just two years in terms of the products going into the China market. Today, around 2,000 Australian brands, many of which are SMEs, are selling via our Timor and Timor Global business to consumer channels. This

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<sup>279</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

<sup>280</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 11.

<sup>281</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 11.

<sup>282</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 11.

<sup>283</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

represents an increase of over 50 per cent in the number of Australian businesses selling via us in just the last 24 months.<sup>284</sup>

2.159 Mr Hudson outlined that helping facilitate the growth of SMEs via online marketplaces does not come without its challenges. One of the most significant challenges for SMEs who wish to start selling to China via Alibaba's marketplaces is understanding the opportunity and where to start.<sup>285</sup>

2.160 Alibaba Group Australia and New Zealand believe awareness and understanding is the biggest barrier for SMEs.<sup>286</sup>

For this reason, educating businesses has been at the core of our local team's activities. Since launching our local offices, Alibaba has hosted over 50 workshops and seminars to educate SMEs across Australia, including across regional Australia, such as in the Gippsland, Cairns, Gold Coast, Sunshine Coast and Launceston areas. We have reached and provided information to thousands of SMEs through these workshops, often held in conjunction with Austrade, with whom we have an MOU, various state governments and in partnership with a number of not-for-profits and peak bodies.<sup>287</sup>

2.161 The next biggest challenge Australian SMEs will face in e-commerce, according to Mr Hudson, is meeting and connecting with buyers who can help facilitate their access to Alibaba's e-commerce channels, which are not always easy to use for people who do not speak Chinese.<sup>288</sup>

We've addressed this by creating opportunities for face-to-face interaction between businesses, buyers and distributors. An example of this is the Alibaba E-Commerce Expo we held in Sydney a couple of weeks ago, and this week we'll hold the event for a second year in Melbourne. We bring together thousands of distributors, buyers, brands, social media influencers and celebrities to over 300 exhibiting Australian and New Zealand SME brands across the two events. The annual expo and SME conference also allows Alibaba and its partners to help companies understand how they can utilise different services to make cross-border e-commerce easier and more profitable

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<sup>284</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

<sup>285</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

<sup>286</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

<sup>287</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

<sup>288</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 8.

through innovative web based sales, payments, logistics and data-driven digital marketing solutions.<sup>289</sup>

- 2.162 Mr Hudson explained there will always be a place for face-to-face retail shopping in China and elsewhere. The Alibaba Group actually sees the world of online and offline retail merging together into something that founder Jack Ma has coined as 'new retail'.<sup>290</sup>

Basically new retail is just that: online and offline merging together with payments, entertainment, live streamed video, instore, online—all of these things coming together. It's a big movement in China and it's the direction of retail right now.<sup>291</sup>

- 2.163 Mr Hudson outlined Alibaba Group also have a chain of new retail supermarkets called HermaFresh combining online and offline.<sup>292</sup>

We've opened 60 in the past couple of years and there are plans to open another 1,000 over the next five years. They're supermarkets where you can go in and buy the products instore or you can buy them with the app and scan the QR codes and have them delivered to your house. You can also buy them within the app. Sixty per cent of sales are bought within the app, and 40 per cent are bought instore.<sup>293</sup>

So really we see that these worlds are merging, and a lot of the technologies that Alibaba has focused on developing are to support the offline retail sector, because there are a lot of sensory experiences with offline retail that at least for now, and probably for some time, online retail is going to struggle to compete with, particularly in fashion and fresh foods. There is a joy or an experience in going and feeling those products out. But we don't believe online retail will replace offline retail.<sup>294</sup>

- 2.164 DIIS submitted that trade issues, particularly digitally-enabled trade, and a regulatory environment that facilitates the free flow of goods, services and data across borders, will be important components of the Strategy.<sup>295</sup>

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<sup>289</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, pp. 8-9.

<sup>290</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 14.

<sup>291</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 14.

<sup>292</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 14.

<sup>293</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 14.

<sup>294</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 14.

<sup>295</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

Technology is changing the global economy and creating opportunities for businesses to access international markets. It is giving Australian businesses opportunities to design concepts, provide raw materials, develop products, and/or undertake marketing and distribution as part of global value chains (GVCs).<sup>296</sup>

- 2.165 DIIS believes this potential extends even to small businesses which would not previously have had the capacity to develop overseas markets.<sup>297</sup>

In particular, digital technologies are providing the capability for SMEs to participate in GVCs by supplying a single component rather than designing, building and distributing the whole product or service. The growth of platforms such as Amazon and Alibaba means that even the smallest companies have the potential to access, compete and export goods and services to global markets alongside the largest multinationals.<sup>298</sup>

- 2.166 However, DIIS believes not enough Australian businesses are contributing to GVCs and benefiting from the opportunities on offer.<sup>299</sup>

To encourage businesses to participate in and benefit from GVCs, government needs to work with industry to ensure Australia has the right enabling environment, including consistent, flexible and fit-for-purpose regulatory frameworks.<sup>300</sup>

## International standards for digital trade

- 2.167 In a globalised trading environment where interoperability between different national systems is essential, DIIS is promoting international standards needing to be a relatively light-touch and also flexible form of regulation that can evolve quickly to adapt to changing circumstances. DIIS claims the Government will continue to take a leadership role to influence international rules and standards to support growth sectors and help businesses capitalise on their competitive strengths.<sup>301</sup>

<sup>296</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

<sup>297</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

<sup>298</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

<sup>299</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

<sup>300</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

<sup>301</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.



The international rules and standards governing digital trade are still being developed as regulators grapple with the challenges that digital trade presents.<sup>302</sup>

- 2.168 DIIS outlined several current examples of the Government's developing standards to help Australian businesses participate in the global digital economy.<sup>303</sup>

The Government is developing a standards-based approach to e-invoicing to digitise and automate the exchange and processing of invoice related documents between suppliers and buyers. Widespread adoption of e-invoicing could save Australian businesses between \$7 and \$10 billion each year, with significant benefits for SMEs.<sup>304</sup>

The Digital Business Council estimated this figure [of between \$7 and \$10 billion each year], suggesting that savings would occur through reduced costs in using paper (including posting) as well as the reduction of administration errors and time outputs. Further information can be found on the Digital Business Council website...<sup>305</sup>

- 2.169 DIIS submitted the Government is supporting Standards Australia to lead the development of international standards for blockchain technologies. In addition, the Government has convened the Prime Minister's Industry 4.0 Taskforce, which is a collaboration between the governments of Australia and Germany to develop global Industry 4.0 standards.<sup>306</sup>

## **ASEAN-Australia Digital Trade Standards initiative**

- 2.170 On 16 March 2018, the Prime Minister announced the launch of the ASEAN-Australia Digital Trade Standards initiative. DFAT submitted this initiative will provide a framework to support the development, adoption and use of international digital trade standards, helping SMEs to benefit from digital trade with the dynamic ASEAN region.<sup>307</sup>

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<sup>302</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

<sup>303</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 18.

<sup>304</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, pp. 18-19.

<sup>305</sup> Dept. of Industry, Innovation & Science, *Supplementary to submission 31.1*, p. 2.

<sup>306</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 19.

<sup>307</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 14.

The ASEAN-Australia Digital Standards Cooperation Initiative is a joint DIIS and Standards Australia project to develop a framework for Australia and ASEAN Member States to cooperate in developing international standards that promote digital trade.<sup>308</sup>

## Growing trade for Australian SMEs in the EU, France and Germany

- 2.171 Australia and the European Union have started negotiations on a free trade agreement and the German Australian Business Council (GABC) submitted its assumption that this agreement will be successfully negotiated and ratified by Australia, the European Union and its member states where required.<sup>309</sup>

The European Union is one of the most successful free trade areas in the world...The most significant revision – at least as far as trade between the member countries is concerned – was the so-called Maastricht Agreement of 1992 which established the current internal market.<sup>310</sup>

- 2.172 The European Union has concluded a Comprehensive and Economic Trade Agreement (CETA) with Canada which the GABC believed should serve as a model for the EU Australia agreement.<sup>311</sup>
- 2.173 Australian Business in Europe-France (ABIE-France), that represents nearly 100 corporate, business and individual members, submitted that for Australian SME exporters of goods and services to succeed in France, even under a proposed EU-Australia FTA, many will need support beyond the framework of a typical FTA.<sup>312</sup>
- 2.174 ABIE-France acknowledged the work of Austrade and DFAT in assisting Australian businesses to succeed abroad.<sup>313</sup>

It also noted that the Australian federal and state governments provide trade assistance to Australian companies in Europe through the Export Market Development Grants scheme, ad hoc referrals and trade delegations.

<sup>308</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 19.

<sup>309</sup> German Australian Business Council, *Submission 36*, p. 2.

<sup>310</sup> German Australian Business Council, *Submission 36*, p. 2.

<sup>311</sup> German Australian Business Council, *Submission 36*, p. 2.

<sup>312</sup> Australian Business in Europe (France), *Submission 38*, p. 1.

<sup>313</sup> Australian Business in Europe (France), *Submission 38*, p. 1.

Nevertheless, the number of Australian SMEs exporting goods and services to France remains small.<sup>314</sup>

- 2.175 German-Australian Chamber of Industry and Commerce (GACIC) submitted it is the official representative of German business in Australia and represents over 900 companies active in bilateral business relationships. These companies represent a variety of industry sectors and are particularly small to medium-sized enterprises (SMEs) and medium-sized German companies ("Mittelstand"), according to GACIC.<sup>315</sup>
- 2.176 The GACIC supports a free trade and investment environment and is committed to deepening economic links and business exchanges between Australia, Germany and the European Union as well as the wider Indo-Pacific region.<sup>316</sup>
- 2.177 FTA's can be an important instrument to increase trade and investment for the benefit of all involved. They can remove tariff and non-tariff trade barriers facing market participants and they help to unlock the full potential of a bilateral or multilateral trade and investment relationship.<sup>317</sup>

## Challenges for Defence industry exports

- 2.178 Ms Mel Woon, Executive Officer of the Australian Industry and Defence Network-Queensland, explains many of its members export to places like the UK, the UAE, France, Germany, Canada, USA, Indonesia and New Zealand.

Essentially, what it comes down to is that Australia has quality products and services over other countries, and we are doing a lot of work in the defence supply chain for those countries as well.<sup>318</sup>

- 2.179 While Australia may not have free trade agreements with all of those countries, Ms Woon explained some of the barriers to exporting to the USA, that Australia does have an FTA with.<sup>319</sup>

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<sup>314</sup> Australian Business in Europe (France), *Submission 38*, p. 1.

<sup>315</sup> German-Australian Chamber of Industry and Commerce, *Submission 21*, p. 1.

<sup>316</sup> German-Australian Chamber of Industry and Commerce, *Submission 21*, p. 1.

<sup>317</sup> German-Australian Chamber of Industry and Commerce, *Submission 21*, p. 1.

<sup>318</sup> Ms Mel Woon, *Committee Hansard*, 4 October 2018, p. 6.

<sup>319</sup> Ms Mel Woon, *Committee Hansard*, 4 October 2018, p. 6.

When it comes to dealing with the USA and supplying the USA, we do have a roadblock. It essentially comes down to China. If any part of your product comes from China, you are unable to supply to defence in the USA. So you need to be able to trace back every single supplier and make sure that every tiny little aspect, including every bolt and every nut, does not come back as manufactured in China. That is one of the bigger things that have been a huge change in our industry over the last couple of years, where Donald Trump is basically saying: 'You're doing business in China? You're doing any sort of business with China? We will not do business with you.'<sup>320</sup>

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<sup>320</sup> Ms Mel Woon, *Committee Hansard*, 4 October 2018, p. 6.

### 3. Consideration of what issues, products and services are negotiated in FTAs

#### Negotiation process for FTAs

- 3.1 Trade consultants KPMG outlined that much has changed in the three decades that have passed since Australia's first FTA was negotiated with New Zealand. KPMG argued how a comparison with some of Australia's more recent agreements, such as the ChAFTA and the CPTPP, reflect the maturity and diversity of Australia's domestic markets, its global trade relationships and the "complexities of economic integration in fluid geopolitical climates".<sup>1</sup>

Simply put, our policy makers and negotiators needed to think about more than base commodities, and are doing a commendable job.<sup>2</sup>

- 3.2 According to DFAT, FTA negotiations are guided by Cabinet-approved whole-of-Government negotiating mandates that take into account Australia's national interests. Australia pursues high quality, comprehensive agreements with Australia's negotiating partners. In goods trade, Australia seeks liberalisation of all tariff lines within the shortest possible timeframe.<sup>3</sup>

While this is not always achievable, Australia seeks to limit exclusions to the least number of tariff lines possible. Australia enters negotiations looking to

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<sup>1</sup> KPMG, *Submission 4*, p. 6.

<sup>2</sup> KPMG, *Submission 4*, p. 6.

<sup>3</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

agree on rules and procedures that facilitate trade, for example, aiming for Declarations, rather than Certificates, of Origin.<sup>4</sup>

- 3.3 Mr Todd Mercer, Assistant Secretary—FTA Policy and Implementation Branch, at DFAT, explained the Department’s approach to “negotiating FTAs is to consult widely, including with SMEs, at all stages of the negotiations.”<sup>5</sup>

...before the negotiations commence, during the negotiations themselves and in the implementation phase. We do that to ensure that the outcome reflects, as much as it can, the interests of all stakeholders and the full spectrum of Australian businesses.<sup>6</sup>

- 3.4 Mr Mercer outlined why FTAs can help SMEs expand their business.

In terms of what FTAs can deliver for SMEs, we believe that SMEs can benefit by creating a competitive edge for their goods and services exports, including through ecommerce channels, providing access to a wider range of more-competitively priced imports and deepening their engagement with global value chains. FTAs also have a role in safeguarding against protectionist tendencies in other countries, which is particularly pertinent at the moment, given the current climate. They can also improve access to overseas investment capital and new technologies and, as a result of all of this, provide new growth and, importantly, employment opportunities.<sup>7</sup>

- 3.5 Mr Mercer reiterated that the Government’s negotiation team examines trade issues surrounding FTAs such as rules of origin and others during the process.

We try to ensure through the negotiations that issues such as rules of origin, which I notice in a number of submissions has been quite a focus, and other elements of FTAs that they’re as facilitative as possible. One point which I think will come out and is important to make is that these agreements are by definition a negotiation between two or more parties and represent a balance of interests across the breadth of the agreement.<sup>8</sup>

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<sup>4</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>5</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 2.

<sup>6</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 2.

<sup>7</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 2.

<sup>8</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 2.

- 3.6 Mr Simon Smalley, Assistant Secretary, Strategic Trade Policy Branch, Trade and Market Access Division, Department of Agriculture and Water Resources described DFAT's focus is largely about trade policy.<sup>9</sup>

...so [DFAT] are the lead negotiators around the free trade agreements. But, as an agency, I wouldn't expect to see them working very often in the way of facilitating or developing a market. That role I see as being one that is Austrade's. And also in the agriculture space, because there are a number of industry groups that have, at a peak-body level, marketing arms themselves, they tend to be in-market and working to develop the markets themselves. In the meat example, it's Meat & Livestock Australia.<sup>10</sup>

- 3.7 Mr Smalley believed DFAT, like the Department of Agriculture and Water Resources, remained somewhat independent of the individual exporters.<sup>11</sup>

They're working at the trade policy level, which is about the arrangements for tariffs and quotas in particular and the rules that are set in the free trade agreement for what is described as Australian produce versus non-Australian produce.<sup>12</sup>

- 3.8 Mr Mercer outlined the limitations of FTAs in opening up trade.<sup>13</sup>

One of the things that we need to be clear on is that FTAs aren't silver bullets. They can address certain things, but there are things that they don't address. For example, tax is not something that is addressed in a free trade agreement.<sup>14</sup>

- 3.9 Mr Mercer described how sensitive market access or non-tariff measures are for governments when negotiating trade deals.<sup>15</sup>

We have a very robust quarantine system of our own. It's not something that you could generally negotiate in the context of a free trade agreement. What the free trade agreements do provide is another avenue to pursue some of these issues. We have existing bilateral mechanisms with most of our trading partners—certainly our important trading partners.<sup>16</sup>

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<sup>9</sup> Mr Simon Smalley, *Committee Hansard*, 17 September 2018, p. 3.

<sup>10</sup> Mr Simon Smalley, *Committee Hansard*, 17 September 2018, p. 3.

<sup>11</sup> Mr Simon Smalley, *Committee Hansard*, 17 September 2018, p. 3.

<sup>12</sup> Mr Simon Smalley, *Committee Hansard*, 17 September 2018, p. 3.

<sup>13</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 7.

<sup>14</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 7.

<sup>15</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 7.

<sup>16</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 7.

- 3.10 Mr Mercer raised how Australia has opportunities to pursue certain issues through other multilateral organisations such as the WTO. He said Australia has arrangements to discuss trade issues with China after ChAFTA was signed.

We have a number of committees [with China] where we have an opportunity to raise concerns to try and find a resolution to these issues. Last year we had meetings of the trading goods committee. We raised a number of very specific NTMs—non-tariff measures—which were of concern to industry. We raised them again at the vice minister level at the joint commission meeting in March of last year. It's another string to our bow. It's another forum at which we can try and pursue these issues, but trying to address them in the context of a free trade agreement negotiation is difficult.<sup>17</sup>

- 3.11 Mr Mercer emphasised the complexity of trade negotiations and how a health protocol on a certain product may be necessary alongside an FTA to open up trade in that product.

What is often necessary is...a health protocol. That's a separate negotiation which needs to happen. When we're negotiating a free trade agreement—for example, at the moment, we're negotiating with the Pacific Alliance—if we had from industry a particular interest, say, in beef to Mexico and we could see those negotiations are progressing, in parallel with that, we can try and set up or pursue a negotiation to agree on a health protocol to allow that trade to happen. At the time the FTA enters into force, you would have the tariff preference plus the health protocol in place. These things are complex, and having served overseas myself and been subject to complaints from Chileans and Mexicans about their products not being allowed in [to Australia], it underlines just how difficult it can be. The bottom line is: there are limits to what FTAs can do, but it does give us another opportunity to try and pursue some of these issues.<sup>18</sup>

- 3.12 The Head of Economic Development at the Sunshine Coast Council, Mr Paul Martins, advised DFAT, Austrade and trade negotiators to look more closer at the what regions in Australia may be better suited to providing goods and services for FTAs.<sup>19</sup>

I would say for DFAT and others not to look at just the composition of trade statistics between countries but actually look at the make-up of our regions

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<sup>17</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 7.

<sup>18</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 7.

<sup>19</sup> Mr Paul Martins, *Committee Hansard*, 24 July 2018, p. 20.



and our centres that we're trying to encourage more exporters from to ensure that they are aligned with the tariff reductions they are negotiating.<sup>20</sup>

- 3.13 The Sunshine Coast Council suggested that FTA negotiation teams have a rethink and consider a new approach.<sup>21</sup>

FTA negotiators typically start with the largest export items and work from there to identify FTA negotiation items. It would be useful if they started from understanding the priority industries of small business and those with the capacity to increase jobs – and then focus on these as the priorities.<sup>22</sup>

As important as the big industries (eg, dairy, coal, wheat) are to Australian exports, the Commonwealth Government also has an opportunity to focus on the products/services of SMEs and further contextualise the specific products/services (and companies) that will benefit from an FTA.<sup>23</sup>

- 3.14 The Sunshine Coast Council highlights it also important that small business be given a voice in government-led trade negotiations.<sup>24</sup>

Specifically, an SME export advisory committee would give the government practical, implementable advice when considering or undertaking complex FTA negotiations.<sup>25</sup>

- 3.15 The Manager of Economics and Industry Policy, Victorian Chamber of Commerce and Industry, Mr Hugh Horsfall, wants the Government to be aware of how complicated FTAs can appear to many SMEs and business people and to look continually for ways and methods to simplify them.<sup>26</sup>

In terms of forward-looking approaches to the negotiation of new free trade agreements and the renegotiation of agreements to have an increased focus on simplicity, there is implementation and ease of use by business—especially small business—seeking to be mindful of how complex rules will impact business on the ground and how they will actually apply those and then

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<sup>20</sup> Mr Paul Martins, *Committee Hansard*, 24 July 2018, p. 20.

<sup>21</sup> Sunshine Coast Council, *Submission 9*, p. 3.

<sup>22</sup> Sunshine Coast Council, *Submission 9*, p. 3.

<sup>23</sup> Sunshine Coast Council, *Submission 9*, p. 3.

<sup>24</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>25</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>26</sup> Mr Hugh Horsfall, *Committee Hansard*, 30 July 2018, p. 11.

building on that to, in the negotiation of new agreements, specifically seek to address known non-tariff barriers where they can be in scope.<sup>27</sup>

- 3.16 The National Manager, Business and International Advisory Services, Australian Industry Group, Ms Louise McGrath, wants all free trade agreements to be closely monitored so as to be refined, simplified and improved.<sup>28</sup>

I would say that free trade agreements cannot be 'set and forget'. Once they are signed it doesn't mean they should just be moved onto the next agreement. They should be constantly monitored. The world changes, markets change and industries change, and FTAs need to be able to be modernised as we go forward.<sup>29</sup>

- 3.17 Mr David Blackstock, General Manager, Policy, for the Department of Trade, Tourism and Investment, South Australia, emphasised the work required beyond the signing of an FTA.<sup>30</sup>

FTAs only address barriers at the border. They need a lot of work to follow up at the Commonwealth level to address-behind-the-border barriers, regulatory impacts, non-tariff barriers, health regulations, mutual recognition of qualifications and standards et cetera. That work needs to be followed through.<sup>31</sup>

- 3.18 Managing Director and Senior Partner, Roberts Gray Lawyers Mr Rhys Roberts, cautioned the Australian Government, negotiators and interest groups to always err on the side of caution when raising issues or disagreements in the media about those being negotiated with.<sup>32</sup>

The No. 1 thing, to my mind, is having a good relationship, government to government, and, if you're going to have disagreements, don't have them in the media. Don't embarrass the other side. In a WeChat group we hosted, for example, 24 lawyers, law firm leaders, from Jiangsu province. They were doing a course at Victoria University.<sup>33</sup>

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<sup>27</sup> Mr Hugh Horsfall, *Committee Hansard*, 30 July 2018, p. 11.

<sup>28</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 18.

<sup>29</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 18.

<sup>30</sup> Mr David Blackstock, *Committee Hansard*, 3 August 2018, p. 26.

<sup>31</sup> Mr David Blackstock, *Committee Hansard*, 3 August 2018, p. 26.

<sup>32</sup> Mr Rhys Roberts, *Committee Hansard*, 30 July 2018, p. 18.

<sup>33</sup> Mr Rhys Roberts, *Committee Hansard*, 30 July 2018, p. 18.

I spoke to them and our office helped host them and we had one of them at our office. Then, in the WeChat group that I'm in with them, there were messages asking: 'Are our Chinese students being raped at your universities? It's not safe for our students to go to university.' That is just nonsense. I said, 'No, that's not correct.' The relationship is everything in China because the legal system is hard to navigate and it's hard to enforce agreements.<sup>34</sup>

People rely on relationships. That's why family owned companies tend to do better. It's because of the relationships. It's hard to be negotiating a business agreement when the newspapers are saying negative things, government to government.<sup>35</sup>

- 3.19 Ms Ivana Manwin of Roberts Gray Lawyers shared the concerns about playing out disagreements in the public arena.<sup>36</sup>

I believe that our system here is quite transparent and when information and news comes out it is all over the media, and that information is sent globally. That can definitely affect the relationship between Australia and, say, China.<sup>37</sup>

- 3.20 The Director of the Evertang Group, Mr Nick Tang, believed it is important to move beyond disagreements on non-tariff barriers and focus on building closer relationships between trading partners.<sup>38</sup>

Today we talked a lot about barriers in free trade agreements, such as regulations, policies, language and culture. But what's fundamental between countries, I think, is building trust, building trust from eastern to western and building trust from country to country.<sup>39</sup>

- 3.21 Ms Glenys Schuntner, Chief Executive Officer of Regional Development Australia Townsville and North West Queensland Inc. expressed she is very keen on anything in free trade agreements that can help SMEs in regional Australia.<sup>40</sup>

...with a comprehensive view of what's good for Australia but what's good for the regions in the deals that are done—so that is for all commodities and all

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<sup>34</sup> Mr Rhys Roberts, *Committee Hansard*, 30 July 2018, p. 18.

<sup>35</sup> Mr Rhys Roberts, *Committee Hansard*, 30 July 2018, p. 18.

<sup>36</sup> Ms Ivana Manwin, *Committee Hansard*, 30 July 2018, p. 18.

<sup>37</sup> Ms Ivana Manwin, *Committee Hansard*, 30 July 2018, p. 18.

<sup>38</sup> Mr Nick Tang, *Committee Hansard*, 30 July 2018, p. 18.

<sup>39</sup> Mr Nick Tang, *Committee Hansard*, 30 July 2018, p. 18.

<sup>40</sup> Ms Glenys Schuntner, *Committee Hansard*, 4 October 2018, p. 4.

services and products to be as broad as possible in being encapsulated into those free trade agreements.<sup>41</sup>

- 3.22 Mr Warren Males, Head, Economics, CANEGROWERS wants greater compliance by the Government with the rules in FTAs by countries that flaunt the rules.<sup>42</sup>

Let's not call them free trade agreements, because we all know they've got things in them other than freedom, so negotiate comprehensive free trade agreements and enforce those trade rules. Don't be shy. Stand up for Australia's interests both at the negotiating table and then at the referee's chair. Going forward we need a Team Australia approach. If there need to be more resources into this process, in my view, it needs to be both on the negotiation side and on the enforcement side to make sure that the rules are there, because if we don't enforce the bloody rules—pardon my French—what's the point in having the rules in the first place?<sup>43</sup>

- 3.23 Mr Michael McMillan, Director, Policy and Investment, Townsville Enterprise Ltd would encourage earlier discussions between DFAT, industry and peak bodies about proposed FTAs.

It is absolutely that early and legitimate engagement with industry and peak bodies to discuss exactly the interests of SMEs and determining, as I suggested, a long-term developmental plan that is affixed to and aligns with the FTA.<sup>44</sup>

## Importance of economic evaluations of FTAs

- 3.24 When commissioning economic evaluations of FTAs, economist Associate Professor Mark Melatos, submitted that DFAT should explicitly require an evaluation of the potential costs of rules of origin compliance on different stakeholders, such as SMEs, and its likely impact on the realisation of market access gains.<sup>45</sup>

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<sup>41</sup> Ms Glenys Schuntner, *Committee Hansard*, 4 October 2018, p. 4.

<sup>42</sup> Mr Warren Males, *Committee Hansard*, 4 October 2018, p. 25.

<sup>43</sup> Mr Warren Males, *Committee Hansard*, 4 October 2018, p. 25.

<sup>44</sup> Mr Michael McMillan, *Committee Hansard*, 4 October 2018, p. 24.

<sup>45</sup> Associate Professor Mark Melatos, *Submission 5*, p. 3.

- 3.25 Associate Professor Melatos believed FTA negotiators should be required to clearly report, for a representative sample of companies (e.g. large, SME, product exporter, service exporter, from a selection of industries):<sup>46</sup>
- The estimated costs of complying with associated rules of origin for each firm type.
  - The estimated net benefit (or cost) of enhanced market access (as defined above) for each firm type.
  - This information will: (i) help firms determine whether or not trading within the FTA is in their interest and (ii) concentrate the minds of FTA negotiators to ensure that the net (rather than gross) benefit of market access gains, forms the basis on which negotiations take place.
- 3.26 FTA negotiators should consider making individual firms the fundamental 'unit of account' in FTA negotiations, according to Associate Professor Melatos.<sup>47</sup>

This approach requires trade negotiators to design FTAs that:<sup>48</sup>

- Recognise that firms have already optimised their production and distribution networks based on the existing trade environment.
- Enhance market access with minimal impact on existing firm operations.
- Signatories to an FTA can create a list of 'accredited' firm-product pairs that is approved by all parties and incorporated into the agreement at the time it is signed. Thereafter, accredited firms are free to trade these products subject to the FTA's preferences without having to demonstrate compliance, once again, with the RoO [Rules of Origin]. They are pre-approved.<sup>49</sup>
- The accreditation list can be developed as a 'living' document, in the sense that new exporters can seek accreditation and existing exporters can amend (or rescind) their accreditation as circumstances change (e.g. suppliers change, new products are developed for export etc).<sup>50</sup>

- 3.27 In this way, Associate Professor Melatos expected the costs of RoO compliance to be a one-time event for firms who thereafter are only required

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<sup>46</sup> Associate Professor Mark Melatos, *Submission 5*, pp. 3-4.

<sup>47</sup> Associate Professor Mark Melatos, *Submission 5*, p. 4.

<sup>48</sup> Associate Professor Mark Melatos, *Submission 5*, p. 4.

<sup>49</sup> Associate Professor Mark Melatos, *Submission 5*, p. 4.

<sup>50</sup> Associate Professor Mark Melatos, *Submission 5*, p. 4.

to update their government of any changes to their circumstances that require their accreditation status to be amended.<sup>51</sup>

## FTA prioritisation for advanced technology and services

- 3.28 KPMG outlined how ensuring that Australia's more recent and future trade agreements effectively cater for the rapid pace of innovation in Australian markets and new and emerging categories of merchandise is a challenging task.<sup>52</sup>

It relies upon an effective conduit to carry the voices of SMEs to Australia's FTA negotiators, which may be lacking or (in the case of agribusiness) 'crowded out' by too many industry representative voices.<sup>53</sup>

- 3.29 While Australia's large agricultural producers have access to, and are accessing FTA benefits, KPMG is also aware there is a vibrant, growing community of SME producers of organic products and other small-batch production. These smaller producers also need to be considered in the frameworks of negotiated FTA benefits and in targeted commitments to identify and reduce Technical Barriers to Trade.<sup>54</sup>

Our SME producers need to be aware that FTAs are also meant to provide benefit for them and not just for the "big end of town".<sup>55</sup>

## Defence industries

- 3.30 The Australian Industry Defence Network Victoria outlined that certain sectors, such as Defence; cyber; high technology; telecommunications; and advanced manufacturing; are largely unable to benefit from FTAs with certain "high risk" export nations.<sup>56</sup>

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<sup>51</sup> Associate Professor Mark Melatos, *Submission 5*, p. 4.

<sup>52</sup> KPMG, *Submission 4*, p. 6.

<sup>53</sup> KPMG, *Submission 4*, p. 6.

<sup>54</sup> KPMG, *Submission 4*, p. 7.

<sup>55</sup> KPMG, *Submission 4*, p. 7.

<sup>56</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 2.

For SMEs this can prove to be a point of confusion, as there is an assumption that if Government is engaging in the FTA, the risks have been mitigated.<sup>57</sup>

- 3.31 The Defence Teaming Centre (DTC), which is supporting Australian industry to develop capabilities and their overall competitiveness for opportunities in the Defence market both in Australia and the global market, submitted that defence businesses unable to export to certain “high risk” nations were those in the cyber, high technology, telecommunications, and advanced manufacturing sectors.<sup>58</sup>

The Government might like to consider how it factors the overall economic benefit of these agreements when certain businesses are automatically excluded from trading, but could be interpreted generically as being included in the terms of FTAs?<sup>59</sup>

Further advice on how Government manages inclusion and prioritisation of these sectors and weights the potential economic benefits and losses would be of value.<sup>60</sup>

- 3.32 Ms Claire S Willette, CEO of the Australian Industry and Defence Network, wants more consultation with the Defence industry ahead of negotiations.

...engaging in a consultative process with industry bodies, with state government—with any of the relevant players, whoever they may be—is important, because it's easier to do that at the front end of policy-building than it is to retroactively go back and unpick things.<sup>61</sup>

More specifically—and representing a community of users that have more specific constraints bounding how they operate and what markets they operate in—I would ask maybe that there is consideration as to how we look at the cross-pollination of government policy and where government initiatives are driving. If we are spending two per cent of GDP to focus on creating a defence export market, do we have the trade agreements and measures in place to help promote that in the right countries?<sup>62</sup>

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<sup>57</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 2.

<sup>58</sup> Defence Teaming Centre, *Submission 27*, p. 1.

<sup>59</sup> Defence Teaming Centre, *Submission 27*, p. 1.

<sup>60</sup> Defence Teaming Centre, *Submission 27*, p. 1.

<sup>61</sup> Ms Claire S Willette, *Committee Hansard*, 30 July 2018, p. 30.

<sup>62</sup> Ms Claire S Willette, *Committee Hansard*, 30 July 2018, p. 30.

## Strengthening intellectual property protections in FTAs

- 3.33 The Winemakers' Federation of Australia submitted while it is a business' responsibility to protect its intellectual property (IP), WFA believes free trade agreements can assist in this protection more broadly.<sup>63</sup>

In order to support this, Australia's FTA negotiations should give greater consideration to how IP is addressed in FTA negotiations. Current agreements provide limited protection and could be strengthened to support the needs of SMEs.<sup>64</sup>

- 3.34 The WFA wants the protection of grape varieties names and Geographical Indication is therefore another significant aspect of Australia's FTA negotiations for wine.<sup>65</sup>

A huge trend amongst wine producers at the moment, in particular the SMEs, is the use of 'alternate varieties' which are not as common to the varieties commonly known to consumers such as shiraz or chardonnay. Alternate varieties provide an innovative point of difference for SMEs for which they can typically seek higher price points as they capture niche or exclusive markets. The main issue which effects industry in relation to these varieties is related to countries claiming these alternate varieties as GIs and protecting them across markets in their own FTA negotiations.<sup>66</sup>

- 3.35 The WFA outlined how in recent years, the EU has made significant efforts to protect a range of GIs in their FTA negotiations.<sup>67</sup>

The lists of hundreds of GIs for protection are being agreed between the EU and their trading partners and within those lists more and more grape varieties are being included for protection.<sup>68</sup>

- 3.36 The WFA submitted that Australia's own FTA negotiations therefore need to support SME winemakers to produce and export these key valuable varieties by "implementing stronger wording which prevents the protection of grape varieties as GIs" with Australia's trading partners.<sup>69</sup>

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<sup>63</sup> Winemakers' Federation of Australia, *Submission 6*, p. 7.

<sup>64</sup> Winemakers' Federation of Australia, *Submission 6*, p. 7.

<sup>65</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.

<sup>66</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.

<sup>67</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.

<sup>68</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.

<sup>69</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.



Not only this but our own FTA negotiations with the EU should ensure that grape variety names are not traded off as it only seeks to stifle innovation and reduce competitiveness of our industry.<sup>70</sup>

## Accommodating the growth in e-commerce

- 3.37 KPMG declared it is critically important that future FTAs negotiated by the Australian Government to recognise the increasing importance of e-commerce trade for the growth and development of the world economy and economic integration between Australia and its key trading partners.<sup>71</sup>

This should include specific commitments in relation to the facilitation of digital trade by enabling the free movement of goods transacted via e-commerce channels.<sup>72</sup>

## Trade in services

- 3.38 Australian Chamber of Commerce and Industry submitted older agreements focussed largely on goods trade, however more recent agreements have a wider scope and include issues aimed to liberalising services trade.<sup>73</sup>

Goods trade is relatively easy to measure because of the intervention of border agencies, but services lack the same statistical collect and so it is less easily analysed.<sup>74</sup>

- 3.39 Services delivery is via four modes described in Article I:2, of the WTO General Agreement on Trade in services (GATS) as:<sup>75</sup>
- a. from the territory of one Member into the territory of any other Member (Mode 1 – Cross border trade);
  - b. in the territory of one Member to the service consumer of any other Member (Mode 2 – Consumption abroad);
  - c. by a service supplier of one Member, through commercial presence, in the territory of any other Member (Mode 3 – Commercial presence); and

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<sup>70</sup> Winemakers' Federation of Australia, *Submission 6*, p. 8.

<sup>71</sup> KPMG, *Submission 4*, p. 11.

<sup>72</sup> KPMG, *Submission 4*, p. 11.

<sup>73</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 21.

<sup>74</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 21.

<sup>75</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 21.

- d. by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member (Mode 4 — Presence of natural persons).

3.40 The ACCI outlined these modes often manifest in trade agreements chapters on investment, movement of people and issues such as cross border data management and flows, standards and IP protections.<sup>76</sup>

3.41 From a regional Australia perspective, the Sunshine Coast Council submitted it is strongly supportive of taking advantage of FTAs to enhance service sector exports.<sup>77</sup>

The Sunshine Coast is home to many service-based small businesses, start-ups, and innovation hubs that provide services across the broader region. Whilst FTAs have helped service sector exports to some degree, there is considerable scope to grow the services sector exports, especially from a small business perspective.<sup>78</sup>

3.42 The Sunshine Coast Council also wants Austrade to also provide further support domestically to small start-up and knowledge-based SMEs in Australia that have a desire to travel overseas, before making the initial leap to Austrade's 'Landing Pad' network.<sup>79</sup>

Recently Austrade fintech and innovation-specialised trade and investment advisors have been based within start up incubators. This is a very valuable and welcomed initiative.<sup>80</sup>

3.43 According to KPMG, another key dimension of Australia's modern FTAs is the inclusion of commitments that recognise the growing importance of trade in services to the economic integration of Australia and its FTA partners - which have featured in specific chapters of each FTA since the Thailand-Australia FTA entered into force in 2005.<sup>81</sup>

The recently concluded TPP-11 includes perhaps the most comprehensive and detailed agreements on trade in services of any FTA to date.<sup>82</sup>

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<sup>76</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 21.

<sup>77</sup> Sunshine Coast Council, *Submission 9*, p. 1.

<sup>78</sup> Sunshine Coast Council, *Submission 9*, p. 1.

<sup>79</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>80</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>81</sup> KPMG, *Submission 4*, p. 7.

<sup>82</sup> KPMG, *Submission 4*, p. 7.

- 3.44 The South Australian Government warned FTAs do not address behind-the-border issues.<sup>83</sup>

Follow-up agreements in some markets, for example, on mutual recognition of standards, are needed. This particularly is an issue in the services sector...

- 3.45 KPMG notes Australia is playing a lead role in the ongoing negotiations of the Trade in Services Agreement (TiSA) that seeks to address barriers to international services trade between a sub-set of WTO member economies which collectively account for 70 percent of global services trade.<sup>84</sup>

In short, it is clear that the relevance of trade in services in the context of facilitating trade is now front of mind to policy makers...<sup>85</sup>

- 3.46 The Victorian Government submitted a key interest for Victoria is it wanted greater access for its services exporters into overseas markets. The Victorian Government believes that FTAs have improved market access for a range of services exporters to some of Victoria's largest export markets. China is Victoria's top export market for international education and tourism.<sup>86</sup>

- 3.47 At a basic level, according to KPMG, to facilitate increased cross-border trade in services, parties must agree to implement rules and processes that enable foreign service providers from FTA partner countries to engage effectively with domestic markets, establish a commercial presence and do business within their borders on more or less the same terms as domestic providers.<sup>87</sup>

The ways in which domestic regulatory regimes may unintentionally establish barriers to successful market entry for foreign service providers is not always clear - making the design and negotiation of services commitments a much more challenging task than is the case with merchandise trade.<sup>88</sup>

- 3.48 KPMG welcomed the efforts made by the Government to ensure Australia's FTAs effectively tackle unnecessary administrative red tape and other barriers to entry for Australia's services exporters. Examples of these efforts were reflected in the updates to the Singapore-Australia Free Trade

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<sup>83</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>84</sup> KPMG, *Submission 4*, p. 7.

<sup>85</sup> KPMG, *Submission 4*, p. 7.

<sup>86</sup> Victorian Government, *Submission 35*, p. 5.

<sup>87</sup> KPMG, *Submission 4*, p. 7.

<sup>88</sup> KPMG, *Submission 4*, p. 7.

Agreement (SAFTA) that allowed greater access for education, legal, financial and other professional services.<sup>89</sup>

Our experience working with SME services exporters suggests that further action is needed to ensure that FTA instruments are as effective in reducing barriers to service exports as they are in relation to helping merchandise exporters 'go global'.<sup>90</sup>

- 3.49 The Victorian Government pointed to the 2010 Productivity Commission (PC) study into Bilateral and Regional Trade Agreements (BRTAs) that found although Australia's BRTAs contain some provisions addressing trade in services, these “do not necessarily lead to significant reductions to services barriers in partner countries”.<sup>91</sup>

This finding is particularly important for any consideration of SME utilisation of FTAs, with smaller firms potentially accounting for more services compared to goods exporters. FTAs that primarily provide increased market access through reduced tariffs could be providing greater benefits to larger goods exporters compared to SMEs with less turnover and perhaps a more services focus.<sup>92</sup>

- 3.50 Victorian Government welcomes FTAs with a broader scope that includes providing greater international market access for smaller services exporters.<sup>93</sup>

To deliver this, it is important that FTA negotiators understand what may be impeding services firms and investors from growing their business in overseas markets. This understanding requires regular consultation with services sector representatives and state governments that have extensive local business and industry contacts.<sup>94</sup>

### *Financial services providers*

- 3.51 On services and investment, DFAT stated Australia seeks to lock in the broadest possible market access. Wherever there is an identified need or

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<sup>89</sup> KPMG, *Submission 4*, p. 7.

<sup>90</sup> KPMG, *Submission 4*, p. 7.

<sup>91</sup> Victorian Government, *Submission 35*, p. 6.

<sup>92</sup> Victorian Government, *Submission 35*, pp. 6-7.

<sup>93</sup> Victorian Government, *Submission 35*, p. 7.

<sup>94</sup> Victorian Government, *Submission 35*, p. 7.

opportunity, DFAT will also negotiate issue-specific chapters, such as on financial services, for example.<sup>95</sup>

Inevitably, the outcomes reflect that FTAs are negotiated agreements between Australia and its trading partners who each pursue their national interests. It is also often a compromise between Australia's open trade and investment regulatory and legislative arrangements, and negotiating countries' equivalent arrangements.<sup>96</sup>

- 3.52 KPMG highlighted the challenges faced by Australia's medium-sized financial services providers that have traditionally been more focused on their domestic markets than markets overseas. Regulatory constraints are a significant barrier to greater international engagement by these providers.<sup>97</sup>

For example, Australia's funds management industry is one of the most respected and best performing in the world yet many SME fund management companies have been unable to expand into Asia due to the complexity and cost of entering a new market.<sup>98</sup>

- 3.53 Given the growth in Australian service industries, KPMG wants the inclusion of tangible and measurable actions and associated mechanisms in future FTAs that will help Australian SME services providers to understand and take advantage of services commitments.<sup>99</sup>

## Tariffs

- 3.54 The Managing Director of Hedweld Group of Companies, Mr Ian Hedley, explained tariffs were why he wants the Government to pursue a trade agreement with Brazil.<sup>100</sup>

...a free trade agreement with Brazil would be wonderful! Our products, literally, double in price when they go to Brazil. It's a huge opportunity there for us, but we're really battling. That's why we manufacture some parts there in Brazil.<sup>101</sup>

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<sup>95</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>96</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>97</sup> KPMG, *Submission 4*, p. 8.

<sup>98</sup> KPMG, *Submission 4*, p. 8.

<sup>99</sup> KPMG, *Submission 4*, p. 8.

<sup>100</sup> Mr Ian Hedley, *Committee Hansard*, 1 August 2018, p. 37.

<sup>101</sup> Mr Ian Hedley, *Committee Hansard*, 1 August 2018, p. 37.

## Tariffs and quotas on Australian sugar

3.55 The Australian Sugar Milling Council (ASMC) submitted it is looking for the Government to continue negotiating preferential trade agreements that reduce tariff and non-tariff barriers to trade and provide for expanded quota access for Australian sugar, to open up new, and consolidate existing trade market.<sup>102</sup>

3.56 The ASMC represents six milling companies who collectively own and operate 20 sugar mills in Queensland. These ASMC members account for over 95 per cent of national raw sugar production and produce more than 99 per cent of Australia's raw sugar exports.<sup>103</sup>

With a relatively small domestic market, access to the export market and buoyant, market driven global prices to sell the remaining 3-4 million tonnes of raw sugar production is vital. Despite around 180 million tonnes of raw sugar consumption globally, Australia competes in a relatively small traded market of around 65 million tonnes per year.<sup>104</sup>

3.57 ASMC outlined Australia competes for market share against countries like Brazil, Thailand, Guatemala, India and Mexico.<sup>105</sup>

With the exception of Thailand who produces lower pol raw sugar, on a like-for-like (quality or pol) basis, Australian raw sugar shipping costs are lower into Asia when compared to these competing suppliers.<sup>106</sup>

3.58 ASMC's stated its priorities are to consolidate relationships with Australia's loyal trading partners (Japan, Indonesia and Korea) as well as diversify risk and gain access to additional, premium earning markets.<sup>107</sup>

The United States (3 mt pa requirement), China (5.3 mt pa requirement) and the European Union (and UK) (2.5 mt pa requirement) are examples of markets Australia has been servicing for many years but new, improved policy settings are sought.

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<sup>102</sup> Australian Sugar Milling Council, *Submission 41*, p. 1.

<sup>103</sup> Australian Sugar Milling Council, *Submission 41*, p. 1.

<sup>104</sup> Australian Sugar Milling Council, *Submission 41*, p. 1.

<sup>105</sup> Australian Sugar Milling Council, *Submission 41*, p. 2.

<sup>106</sup> Australian Sugar Milling Council, *Submission 41*, pp. 2-3.

<sup>107</sup> Australian Sugar Milling Council, *Submission 41*, p. 4.

- 3.59 The Australian sugar industry failed, according to the ASMC, through the Aus-US FTA and more recently through TPP-12 negotiations to achieve improved market access to the highly lucrative US market.<sup>108</sup>

In the US, where the federal government implements a number of complex domestic and import supply controls, the raw sugar price is around US25c/lb or AU\$765/tonne. This is more than double the current global export price of AU\$367/tonne. Currently supplying around 100,000 tonnes per year, or 3 per cent of US total raw sugar import needs, Australia continues to look for opportunities to increase our duty free access to the US market.<sup>109</sup>

- 3.60 The ASMC believed further opportunities for the Australian Government trade officials include the upcoming review of the China-Australia FTA, the EU-27-Australia FTA and a post BREXIT deal with the UK. Under World Trade Organisation (WTO) rules, Australia is allowed to export a very low, and non-commercial volume of 9,925 tonnes to the EU-28 (EU-27 plus UK) at a prohibitive €98 per tonne duty.<sup>110</sup>

The EU-27's total raw sugar import requirement is currently close to 1 million tonnes. The upcoming EU-27 FTA negotiations presents an opportunity for Australia to improve the quantum of duty free access. Australia's access to China is also limited and we compete for around 2 million tonnes of access and a tariff currently set at 95 per cent.<sup>111</sup>

- 3.61 The ASMC outlined another issue that needs to be resolved is the continuing risk that Australian raw sugar exports to Japan can exceed allowable pol limits and incur additional costs from Australian sugar producers needing to prepare special cargoes for the Japanese market, reducing efficiencies, limiting optionality and raising costs.<sup>112</sup>

Under the Japan-Australia Economic Partnership Agreement (JAPEA), Japan provided a number of tariff concessions to support raw sugar imports less than 99.3 dry polarisation. If imports exceed 99.3 dry polarisation very high customs duty and tariff penalties are applied (~AUD \$220/t). The issue is that despite the raw sugar being tested in Australia as consistently below 99.3

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<sup>108</sup> Australian Sugar Milling Council, *Submission 41*, p. 4.

<sup>109</sup> Australian Sugar Milling Council, *Submission 41*, p. 4.

<sup>110</sup> Australian Sugar Milling Council, *Submission 41*, p. 4.

<sup>111</sup> Australian Sugar Milling Council, *Submission 41*, p. 4.

<sup>112</sup> Australian Sugar Milling Council, *Submission 41*, p. 4.

under universally accepted testing protocols, Japanese Customs on a number of occasions have determined the sugar to be in excess of 99.3.<sup>113</sup>

3.62 The ASMC submitted it wants the Australian Government to:<sup>114</sup>

- actively re-negotiate access opportunities into China and the US and an ambitious duty-free quota into the EU-27 and the UK post BREXIT; and
- to work with the Australian sugar industry as it develops its Industry Trade Strategy over the coming 12 months. The strategy will use quantitative and qualitative analysis to identify market opportunities most likely to maximise export revenues over the coming five years.

3.63 Mr Warren Males, the Head of Economics, CANEGROWERS believes the best way to ensure businesses, of whatever size, can benefit from trade agreements is to make sure those trade agreements are “comprehensive, that they include all products and services and contain no exclusions”.<sup>115</sup>

For us the TPP agreement, while it included the US, would have seen a modest increase in tonnage sold, Australian sugar sold, to the US market. Of course, with the US withdrawal from that agreement that opportunity is one that I won't say is lost but is a little further down the track than we'd like to see it.<sup>116</sup>

### *Enforcing compliance with the rules of trade agreements*

3.64 Mr Males of the CANEGROWERS believes it's important to bear in mind that “trade rules work, whether they are trade rules in the multilateral environment, through the World Trade Organization, or trade rules on a bilateral arrangement through an FTA or a regional trade agreement”.<sup>117</sup>

3.65 Mr Males detailed how in 2003 Australia took the Europeans to the courts in the WTO and Australia had a significant win in arguing for the removal of Europe's sugar export subsidies.<sup>118</sup>

We're in a similar situation now where we're very concerned about subsidies that India is providing to its sugar producers domestically. That, in turn, has the world market jittering, if that's an appropriate term, and concerned about exports that will flow from India of maybe five million tonnes of sugar or

<sup>113</sup> Australian Sugar Milling Council, *Submission 41*, p. 4.

<sup>114</sup> Australian Sugar Milling Council, *Submission 41*, p. 4.

<sup>115</sup> Mr Warren Males, *Committee Hansard*, 4 October 2018, p. 3.

<sup>116</sup> Mr Warren Males, *Committee Hansard*, 4 October 2018, p. 3.

<sup>117</sup> Mr Warren Males, *Committee Hansard*, 4 October 2018, p. 3.

<sup>118</sup> Mr Warren Males, *Committee Hansard*, 4 October 2018, p. 3.



perhaps more, so we have seen a significant collapse in the world sugar market over the last 12 to 14 months.<sup>119</sup>

- 3.66 Mr Males wants Australia to negotiate firm rules of trade into agreements and not shy from pursuing any breaches of these rules.

So we'd like to see Australia, as it's going forward, make sure that we enter trade agreements that are comprehensive, that have solid rules associated with them and, importantly, not be afraid to exercise our rights under the relevant terms of those agreements, whether they are bilateral, regional or multilateral...but there's no point in having trade rules if they're not enforced.<sup>120</sup>

- 3.67 Mr David Rynne, the Director of Policy, Economics and Trade, at the Australian Sugar Milling Council wants to stress the importance of ensuring countries don't breach their trade agreements rules or WTO obligations.<sup>121</sup>

I can't underscore enough the heavy lifting that Australia has to do in working with like-minded countries to hold countries to account on their WTO obligations. It's absolutely critical. The world is putting up its barriers; it isn't reducing its barriers. We need to do the heavy lifting in the international fora in that regard.<sup>122</sup>

## Lowering tariffs on Australian wine exports

- 3.68 Winemakers' Federation of Australia submitted the reduction of tariffs can have an undeniable effect in supporting SMEs as is evidenced by the China market where a 14 per cent tariff will be reduced to zero by 2019. The WFA believes high tariffs can effectively lock SMEs out of markets.<sup>123</sup>

For example - India a market with huge future potential is virtually [unavailable] to SMEs due to high tariffs of 150 per cent on imported wine. For this reason, schedules for tariff reduction or removal should be prioritised in FTA negotiations to improve access for SMEs.<sup>124</sup>

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<sup>119</sup> Mr Warren Males, *Committee Hansard*, 4 October 2018, p. 3.

<sup>120</sup> Mr Warren Males, *Committee Hansard*, 4 October 2018, p. 3.

<sup>121</sup> Mr David Rynne, *Committee Hansard*, 4 October 2018, p. 4.

<sup>122</sup> Mr David Rynne, *Committee Hansard*, 4 October 2018, p. 4.

<sup>123</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

<sup>124</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

## Accessing Certificates and Declarations of Origin

- 3.69 DFAT explained the differences between a Certificate of Origin to a Declaration of Origin.

A Certificate of Origin typically needs to be obtained (for a fee) from an authorised body, such as the Australian Chamber of Commerce and Industry. A Declaration of Origin, or self-certification, is usually provided by the manufacturer or exporter.<sup>125</sup>

- 3.70 DIIS submitted it takes an active role in negotiating product-specific rules of origin (for industrial and resources goods) and also the certification requirements under FTAs.<sup>126</sup>

In this role, DIIS seeks to negotiate simple, trade-facilitative and consistent product-specific rules across all FTAs. Reflecting consultation with many industry stakeholders, DIIS also advocates for a dual certification system, allowing traders to choose to provide either a Certificate of Origin (completed by an authorised body) or Declaration of Origin (self-declaration by the importer, exporter or producer), when importing goods under an FTA.<sup>127</sup>

- 3.71 The Chamber of Commerce and Industry of Western Australia (CCI) warns that self-certification may not be the solution to the challenges faced by exporters as they may well face further scrutiny from importing countries.<sup>128</sup>

Inquiries have been made into the use of self-certification within free trade agreements, with some arguing that a self-certification approach will streamline the trade process. However, self-certification would likely put exporters at risk as they are generally not aware, or do not consider, that the burden of proof for rules of origin is usually placed on the importer.<sup>129</sup>

- 3.72 CCI believes such scrutiny is particularly the case under trade agreements (including the Australia-United States FTA, Malaysia-Australia FTA and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership) where the Australian Government has “agreed that the authorities of the

<sup>125</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>126</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 11.

<sup>127</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 11.

<sup>128</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>129</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

importing country can undertake direct investigation of the supply chain in Australia".<sup>130</sup>

Such arrangements expose exporters to scrutiny from foreign governments and can prove to be costly and time consuming. In addition to costs associated with hiring customs consultants and legal representation to defend their claims, such cases can also negatively affect a company's share price and reputation if the investigation becomes public knowledge.<sup>131</sup>

- 3.73 CCI submitted it was aware of such instances where foreign governments have requested confirmation of details surrounding the provided Certificate of Origin.<sup>132</sup>

In such instances, it has been CCI's experience, that as an authorised third-party, confirmation of the details supplied in the Certificate of Origin has sufficed. CCI therefore considers Certificates of Origin to be a crucial tool for mitigating risk and facilitating trade for Australian exporters using FTAs.<sup>133</sup>

- 3.74 National Manager of the Ai Group, Ms McGrath, confirmed that Ai Group is one of the two authorised bodies to issue certificates of origin under a free trade agreement.<sup>134</sup>

Some free trade agreements—the China FTA, the ASEAN FTA and the Thailand FTA—have mandatory certificates of origin. That means that in order to access the benefits of the free trade agreement, a company must come to either Ai Group or one of the state chambers and apply for a certificate of origin. There's obviously a charge associated with that. Ai Group have always advocated that these should not be mandatory, because we see them as red tape...All we are doing is stamping a document confirming information we've already established.<sup>135</sup>

- 3.75 As part of Australia's trade negotiations, the Winemakers' Federation of Australia, wants the Australian Government to seek agreement from current and future trading partners that existing certificates issued by Wine

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<sup>130</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>131</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>132</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>133</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>134</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 2.

<sup>135</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, pp. 2-3.

Australia, as the regulatory compliance authority, are accepted and additional certification should not be required.<sup>136</sup>

A specific issue which occurs currently with some FTA partners is how we should deal with Certificates of Origins (CoO). WFA strongly supports the right of exporters to provide self-certification certificates of origin.<sup>137</sup>

The current requirement under certain FTAs that only Chambers of Commerce can provide certificates of origin adds cost and complexity for export.<sup>138</sup>

3.76 The WFA outlined how for certain free trade agreements there is a requirement for exporters to obtain a Certificate of Origin (CoO) from an authorized body to confirm that the goods being exported comply with the relevant Rules of Origin (RoO) requirements.<sup>139</sup>

3.77 For example, CoOs are required under Australia's existing Free Trade Agreements with Thailand and Singapore and under the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA).<sup>140</sup>

In order to streamline the process for SMEs, if there are requirements for CoO with Australia's trading partners, WFA, strongly recommend that Wine Australia be the Authorized Body to issue CoO under Australia's FTAs.<sup>141</sup>

3.78 In addition to the CoO themselves, the WFA wants rules of origin requirements to be flexible enough to allow wine to be sent to a single point and then marketed onwards. The WFA highlighted the Korea–Australia Free Trade Agreement providing a good example of market friendly RoOs.<sup>142</sup>

## Non-tariff measures

3.79 DFAT submitted that Australia aims to address non-tariff measures (NTMs) wherever they cause trade restrictions, but recognises the rights of trading

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<sup>136</sup> Winemakers' Federation of Australia, *Submission 6*, p. 9.

<sup>137</sup> Winemakers' Federation of Australia, *Submission 6*, p. 9.

<sup>138</sup> Winemakers' Federation of Australia, *Submission 6*, p. 9.

<sup>139</sup> Winemakers' Federation of Australia, *Submission 6*, p. 9.

<sup>140</sup> Winemakers' Federation of Australia, *Submission 6*, p. 9.

<sup>141</sup> Winemakers' Federation of Australia, *Submission 6*, p. 9.

<sup>142</sup> Winemakers' Federation of Australia, *Submission 6*, p. 9.

partners to impose their own standards, quarantine procedures and other regulations.<sup>143</sup>

3.80 Despite the preferentially reduced tariffs for qualifying goods in certain markets under various Preferential Trade Agreements, increasingly the ACCI warned it was hearing from its business members that “non-tariff barriers (NTBs) are becoming a higher concern”.<sup>144</sup>

3.81 Of particular concern about the global rise in NTBs to the business community, according to the ACCI, are the non-tariff barriers related to localisation measures, state-owned enterprises and public procurement.<sup>145</sup>

3.82 The ACCI identified NTBs preventing many businesses from accessing export opportunities include:<sup>146</sup>

- Challenges identifying and developing relationships with distributors and customers.
- Difficulties navigating local languages, cultures, customs and business practices.
- Costs and uncertainty around the protection of intellectual property.
- Difficulties complying with local laws and regulation (in particular labour and tax laws).
- Restrictions or delays in the repatriation of funds to Australia.
- Resource intensive in-country product testing and validation requirements, some of which may be inconsistent with Australian requirements and practices.

3.83 Non-tariff barriers, particularly in China, remain a concern according to Business SA and this seems to be across a wide range of goods, particularly in food and agriculture.<sup>147</sup>

Perhaps the Australian Government could do more to reduce the impacts of these barriers instead of pursuing FTAs alone. For example, working with the Chinese Government to reduce administrative processes to better facilitate Australian products into market.<sup>148</sup>

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<sup>143</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>144</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 14.

<sup>145</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 14.

<sup>146</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 14.

<sup>147</sup> Business SA, *Submission 15*, p. 3.

<sup>148</sup> Business SA, *Submission 15*, p. 3.

- 3.84 Mr Scott Kompo-Harms, Chief of Staff for the Minister for Trade, Tourism and Investment, South Australia, told a roundtable public hearing of the work required by the Commonwealth after an FTA is signed so its Department of Agriculture and Water Resources is better able to focus on overcoming non-tariff barriers and protocol negotiations.<sup>149</sup>

I think FTAs in and of themselves are only one plank in trade liberalisation, so we need to make sure that, as FTAs are negotiated, other Commonwealth agencies—in particular, say, the Department of Agriculture—are sufficiently resourced to address non-tariff barriers and that protocol negotiations, for example, are progressed. Obviously you're dependent on resourcing in the importing countries as well, but we should make sure that the Commonwealth effort is not just devoted to the trade negotiations and then it finishes. There's a whole heap of other work that needs to be done after an FTA is negotiated, to make it fully useful. I think we need to have a greater attention and a greater focus put on things like protocol negotiations and continuous addressing of non-tariff barriers.<sup>150</sup>

- 3.85 Mr Lino Strangis, the Executive Director of International Engagement, for the Department of Trade, Tourism and Investment, South Australia, applauds the work of the Australian Government negotiating trade agreements but warns of the shortcoming in ensuring some trade partners comply.<sup>151</sup>

...it's important to make sure there is compliance. We can do the wonderful negotiation and come up with a document that looks good from both sides, but then the other party needs to stick to it. That's where we need to focus our energy, because often those willing to sign up to these things—and I won't cite any specific economies around the world; we probably know which ones they are; but, even with others that we're quite comfortable with, often you'll find that, in practice, a lot of barriers...remain.<sup>152</sup>

Our leaders, our foreign ministers and our trade ministers need to have frank conversations with their counterparts to make sure that companies are complying with the spirit of the agreement—not just the letter of it but the spirit of it as well.<sup>153</sup>

<sup>149</sup> Mr Scott Kompo-Harms, *Committee Hansard*, 3 August 2018, p. 25.

<sup>150</sup> Mr Scott Kompo-Harms, *Committee Hansard*, 3 August 2018, pp. 25-26.

<sup>151</sup> Mr Lino Strangis, *Committee Hansard*, 3 August 2018, p. 26.

<sup>152</sup> Mr Lino Strangis, *Committee Hansard*, 3 August 2018, p. 26.

<sup>153</sup> Mr Lino Strangis, *Committee Hansard*, 3 August 2018, p. 26.

3.86 If the Australian Government would like to encourage SMEs to export, then Business SA believes it should focus on these types of barriers which can be quite costly.<sup>154</sup>

...therefore larger companies, think Blackmores, Swisse etc, have much more financial capacity to pursue them.<sup>155</sup>

3.87 It is all about addressing non-tariff barriers, according to Mr Simon Woolmer, the Government Relations Manager, Australia and New Zealand, for Swisse Wellness.<sup>156</sup>

...the headline is often about the tariff reduction and that's great, particularly for certain sectors. That's been a massive competitive advantage dealt with. But I think going forward—and non-tariff barriers won't be the same for every free trade agreement—there need to be much stronger mechanisms in place to address them post FTA. Often you don't know that they're coming up until 12 months or two years down the track. ChAFTA has those mechanisms. I think they need to be strengthened going forward into new FTAs, particularly the EU one, so there is recourse for addressing them.<sup>157</sup>

3.88 Purchasing and Procurement Manager, DSI Underground, Mr Murray Drake, wants the Government to stay on top of the non-tariff measures that hinder exporters.<sup>158</sup>

...for our business we'd ask that the government consider the non-tariff-related barriers when you're negotiating FTAs. It's not obvious until you start doing it, and then you realise that the tariff is just one small part and the barriers to entry are significant.<sup>159</sup>

## Non-tariff measures impacting on grain growers

3.89 GrainGrowers outlined that distortionary non-tariff measures (NTMs) are increasing and have become the priority trade policy issue for the grains industry. The recently released Grains NTM Report identified:<sup>160</sup>

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<sup>154</sup> Business SA, *Submission 15*, p. 3.

<sup>155</sup> Business SA, *Submission 15*, p. 3.

<sup>156</sup> Mr Simon Woolmer, *Committee Hansard*, 30 July 2018, p. 18.

<sup>157</sup> Mr Simon Woolmer, *Committee Hansard*, 30 July 2018, p. 18.

<sup>158</sup> Mr Murray Drake, *Committee Hansard*, 1 August 2018, p. 37.

<sup>159</sup> Mr Murray Drake, *Committee Hansard*, 1 August 2018, p. 37.

<sup>160</sup> GrainGrowers, *Submission 33*, p. 1.

- 54 NTMs impacting the grains sector across 15 markets, including Australia's major grains export markets.
- 35 per cent of the identified NTMs result in either nil or very restricted market access.
- 50 per cent of the identified NTMs result in either increased compliance costs or compliance risks.

3.90 GrainGrowers encouraged the Australian Government to support preferential trade agreements with capacity building initiatives that assist in creating opportunities and capturing more value for Australian grain exporters.<sup>161</sup>

### **China's demand for animal testing on imported cosmetics**

3.91 Ego Pharmaceuticals submitted its concerns about the requirement by the Chinese Federal Drug Administration (CFDA) that cosmetic products made overseas be tested on animals undermines one of the core strengths of Ego Pharmaceuticals.<sup>162</sup>

3.92 Ego Pharmaceuticals described the measure as a non-tariff barrier to trade and restated its commitment to using the "best science to develop its products".<sup>163</sup>

In addition to being archaic and unethical, this requirement creates a non-tariff barrier to trade and is a risk to exports not only to China but to New Zealand and the EU where animal testing for cosmetics has already been banned.<sup>164</sup>

3.93 Ego Pharmaceuticals main point of concern are the CFDA's requirement that cosmetic products made overseas be tested on animals but not a requirement of cosmetic products made in China because it "completely removes access to any free trade agreement for companies like Ego that do not test their products on animals".<sup>165</sup>

In 2013 the CFDA removed compulsory animal testing for non-special use cosmetics produced in China. Why are locally-produced cosmetics deemed safe without animal testing yet products produced overseas, in Australia for

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<sup>161</sup> GrainGrowers, *Submission 33*, p. 1.

<sup>162</sup> Ego Pharmaceuticals, *Submission 1*, p. 1.

<sup>163</sup> Ego Pharmaceuticals, *Submission 1*, p. 1.

<sup>164</sup> Ego Pharmaceuticals, *Submission 1*, p. 1.

<sup>165</sup> Ego Pharmaceuticals, *Submission 1*, p. 1.



example, not? For a free trade agreement to work between countries there needs to be a level playing field.<sup>166</sup>

## Harmonisation of NTBs impacting on SME wine exporters

- 3.94 The WFA conceded while tariffs are a key priority for all exporters, it is the “non-tariff barriers that can very often prove more costly for Australian wine exports than the tariffs, especially for SMEs”.<sup>167</sup>

Wine regulation is complex and, in particular, differing rules for wine composition and labelling between markets are difficult to navigate for small businesses.<sup>168</sup>

- 3.95 Wine production is a highly technical business across the supply chain, according to the WFA. It is extremely challenging for winemakers to manage and navigate varying export compliance issues, according to the WFA, especially for those trading with multiple markets which all have different requirements.<sup>169</sup>

For this reason harmonisation of technical requirements is of the greatest importance to wine industry SMEs. If producers can utilise the same technical production methods, have the same labelling, chemicals and additives requirements as on the domestic market trade becomes significantly easier and a less costly experience.<sup>170</sup>

- 3.96 The WFA highlighted the complex testing and certification requirements for wine as another significant issue for small winemaking businesses.<sup>171</sup>

These can prevent small businesses exporting to some markets. Therefore, addressing technical barriers to trade in FTA negotiations should be a key priority of Australia’s trade negotiations to assist SMEs.<sup>172</sup>

- 3.97 The WFA outlined it is a strong advocate for harmonisation of wine technical requirements in support of trade facilitation.<sup>173</sup>

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<sup>166</sup> Ego Pharmaceuticals, *Submission 1*, p. 1.

<sup>167</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 3.

<sup>168</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 3.

<sup>169</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 3.

<sup>170</sup> Winemakers’ Federation of Australia, *Submission 6*, pp. 3-4.

<sup>171</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 4.

<sup>172</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 4.

<sup>173</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 4.

This is of particular importance in emerging markets and countries where wine is not traditionally produced. Wine is a highly complex and technical product throughout the supply chain and imposed technical requirements can sometimes result in unnecessary cost or barriers to trade of wine.<sup>174</sup>

3.98 The WFA believed essentially that food and agriculture non-tariff barriers fall in four categories:<sup>175</sup>

- Labelling
- Compositional issues – including Maximum residue limits
- Certification
- Analytical and testing requirements

3.99 WFA showed how differing requirements for these NBTs cause cost and trade disruptions for wine exporters. These issues are normally dealt with bilaterally on a case-by-case basis or by using a number of international institutions that establish specific guidelines to try and reduce trade barriers in these areas.<sup>176</sup>

Failure to deal with these at the systems level leads to expensive and resource intensive approaches with limited success. FTAs need to look at a systems based approach to non-tariff barriers.<sup>177</sup>

3.100 The WFA believed the harmonization of the Maximum Residue Limit (MRL) for pesticides would have important trade facilitation outcomes and result in cost savings in the millions of dollars. APEC is currently running a pilot program through the APEC Food Safety Cooperation Forum.<sup>178</sup>

3.101 WFA Chief Executive Mr Anthony Battaglione agreed that the testing of maximum residue limits is one of the biggest problems for wine exporters.

And how we look at testing methods to make sure that we've all got harmonised testing methods or whether we use them for regulatory purposes. These are just examples, but it's the systems that we need to be able to solve, not individual situations of wine into Japan. It's about all products going in and how they deal with the issues.<sup>179</sup>

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<sup>174</sup> Winemakers' Federation of Australia, *Submission 6*, p. 4.

<sup>175</sup> Winemakers' Federation of Australia, *Submission 6*, p. 4.

<sup>176</sup> Winemakers' Federation of Australia, *Submission 6*, p. 4.

<sup>177</sup> Winemakers' Federation of Australia, *Submission 6*, p. 4.

<sup>178</sup> Winemakers' Federation of Australia, *Submission 6*, p. 5.

<sup>179</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 8.

3.102 According to the WFA this work has gained agreement on the following broad principles:<sup>180</sup>

- 1 participation in the development of MRLs in Codex Alimentarius (Codex) via the Codex Committee on Pesticide Residues (CCRP) that is hosted by China;
- 2 adoption of Codex MRLs in domestic legislation and trade;
- 3 work sharing, or exchanging data to support the establishment of pesticide MRLs by member economies, in cases where there is no domestic equivalent for a member economy; and
- 4 develop unilateral “recognition”, or “import tolerances” where practical and appropriate, in domestic regulation of specific pesticide/commodity MRLs of trading partners on a case-by-case basis.

3.103 The WFA believes free trade agreements could endorse these principles and adopt the guideline developed under APEC.<sup>181</sup>

This would greatly enhance the ability to harmonise MRLs and facilitate trade. This approach recognises that there is no single system, but establishes a guideline for each economy to use when a request for an import MRL is received. Efforts to harmonise MRL requirements could significantly assist SMEs to facilitate trade and reduce costs.<sup>182</sup>

### *Certification and conformity assessment for wine*

3.104 The WFA submitted that many countries have differing requirements for certification and conformity assessment on the import of wine. These typically include one or more of the following:<sup>183</sup>

- certificate of origin;
- hygiene certificate;
- certificate of free sale;
- certificate of conformity;
- chemical analysis.

3.105 WFA disclosed each certificate imposes financial cost on wine exporters and administration cost in the importing country.<sup>184</sup>

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<sup>180</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 5.

<sup>181</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 5.

<sup>182</sup> Winemakers’ Federation of Australia, *Submission 6*, pp. 5-6.

<sup>183</sup> Winemakers’ Federation of Australia, *Submission 6*, p. 6.

Bearing in mind the low-risk nature of wine, these costs may be seen as unnecessary in many instances.<sup>185</sup>

Chemical analysis is the most costly form of certification. There is an added risk to exporters with chemical analysis where wines are not analysed by internationally accredited laboratories or do not use recognised methods of analysis which may potentially result in inaccurate or unreliable analyses.<sup>186</sup>

- 3.106 The ACCI believed export quotas as well as sanitary and phytosanitary (SPS) measures pose restrictions on trade, particularly for exports of agri-food products.<sup>187</sup>

These measures can significantly limit market access, regardless of whether an FTA is in place.<sup>188</sup>

It is of considerable concern that nations that espouse “free trade” and sign agreements to this effect, also seek to create and implement new, novel and often much less transparent protectionist measures to support their local industries.<sup>189</sup>

- 3.107 Mr Battaglene shared one of the things that the WFA have been really heartened by is that both the Department of Foreign Affairs and Trade and also the Agriculture Department have now realised they should use free trade agreements to address non-tariff measures.<sup>190</sup>

[The departments] have set up some groups to look at non-tariff measures. There are currently consultants out doing some work for DFAT on NTMs.<sup>191</sup>

- 3.108 Mr Battaglene outlined that the WFA have been doing a lot of work to try and influence the outcomes in FTAs, by including an annex on wine.<sup>192</sup>

We're starting to do it in annexes. We had it in the TPP-11, for example. There was annex on wine. But we've suggested that, perhaps, they should try and do

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<sup>184</sup> Winemakers' Federation of Australia, *Submission 6*, p. 6.

<sup>185</sup> Winemakers' Federation of Australia, *Submission 6*, p. 6.

<sup>186</sup> Winemakers' Federation of Australia, *Submission 6*, p. 6.

<sup>187</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 14.

<sup>188</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 14.

<sup>189</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 14.

<sup>190</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 7.

<sup>191</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 7.

<sup>192</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 7.

a food annex which deals with the broader cross-cutting issues. We've modified that annex and we're proposing the Pacific Alliance negotiations. That's a good one for us because we've got some friends in Mexico and Chile who can help support those. Once you get a template forward and some precedence, it becomes easier for negotiators to move down that route. We're leading the charge on it because we see it's really important, but, once you level the playing field, everyone wins.<sup>193</sup>

## Industry, Innovation & Science Department role in FTAs

3.109 The Department of Industry, Innovation & Science (DIIS) submitted it plays a key role in the development, negotiation, implementation and review of Australia's trade policy agenda, both in the multilateral trading system and through FTAs. The Portfolio stated it works closely with the Department of Foreign Affairs and Trade (DFAT), in their role as lead negotiators, and alongside other Australian Government agencies as a key advisor in trade negotiations.<sup>194</sup>

3.110 DIIS advises DFAT on the negotiation of new market access opportunities for industrial and resources goods exports; reciprocal industrial tariff elimination with appropriate transitional arrangements; consistent and trade facilitative rules of origin; mechanisms to deal with non-tariff and other technical barriers to trade; commitments on trade remedies which maintain the integrity of Australia's domestic anti-dumping, countervailing and global safeguard regimes; and the development of internationally-consistent and trade-facilitative rules for digital trade and electronic commerce.<sup>195</sup>

DIIS continues to play a role in FTA implementation and review following the completion of negotiations, particularly through participation in FTA committees. For example, DIIS is responsible for implementing Australia's FTA obligations regarding technical barriers to trade and translating those obligations into practical initiatives that facilitate trade.<sup>196</sup>

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<sup>193</sup> Mr Anthony Battaglene, *Committee Hansard*, 10 September 2018, p. 7.

<sup>194</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 9.

<sup>195</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 9.

<sup>196</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 9.

## Jobs and Small Business Department advice on FTAs

3.111 The Department of Jobs and Small Business (DJSB) advises DFAT on small business policy chapters within FTAs affecting the small business policy environment.<sup>197</sup>

This is in addition to a broader range of labour market and workplace relations related policies such as commitments on the movement of natural persons, mutual recognition, government procurement, labour market impacts of tariff measures and labour chapters (where included).<sup>198</sup>

## Consultation on FTAs with business community

3.112 DFAT outlined that the inclusion of particular elements in FTAs is guided by consultations with stakeholders. As an example of its consultation process, DFAT highlighted it received more than “260 submissions before and during the China-Australia FTA (ChAFTA) negotiations, and held direct consultations and discussions with over 1,000 stakeholders”.<sup>199</sup>

3.113 The FTA process – from inception to implementation – typically involves, according to DFAT, consultation with businesses, including SMEs, at the following stages:<sup>200</sup>

- seeking submissions and conducting face-to-face meetings before negotiations begin to identify priorities and sensitivities, so negotiators are well-placed to deliver the outcomes businesses, including SMEs, are looking for;
- ongoing and intensive consultations during negotiations to update businesses and industry bodies on progress and seek their views on specific offers from trading partners;
- encouraging businesses to provide submissions and testimony to the Joint Standing Committee on Treaties whenever it conducts hearings on proposed FTAs;
- outreach and advocacy to businesses following entry into force of the FTA to ensure they understand the benefits and requirements of the FTA, and how to take advantage of them;

<sup>197</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 9.

<sup>198</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 9.

<sup>199</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 6.

<sup>200</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 6.

- addressing any FTA implementation concerns raised by businesses in relevant meetings of committees established under each FTA, such as meetings of ChAFTA's Sanitary and Phytosanitary Committee have previously discussed a range of export protocols for agricultural exports to China; and
- seeking further submissions as Australia and its trading partners undertake mandated periodic reviews of FTAs.<sup>201</sup>

3.114 Trade consultants KPMG submitted that since the main users of FTAs are business entities, including SMEs, then it is important the government agencies involved with FTAs need to consult and engage with the business community.<sup>202</sup>

It is paramount that government negotiators and other decision-makers receive advice and information from a wide range of experts, stakeholders and other interested parties in order to develop evidence-based policy, drawing on international best-practice, to help to open markets and break down behind-the-border barriers to trade.<sup>203</sup>

3.115 The Project Manager for Maritime/Ship Repair at Thales Australia in Newcastle, Mr Greg Gocher, observed many businesses at the roundtable public hearing were unaware of consultation opportunities with the Government on FTAs ahead of and during negotiations. He believed Government negotiators need to hear more examples of how various trade issues may impact on trade.<sup>204</sup>

I think if that were more transparent, out into industry, whether you chose the top 10 organisations in each of those fields that were going to be most affected by these free trade agreements and they got to sit at the table before you went into negotiation, and how you select those top 10 or 20 or whatever it might be, one of the questions would be: who is this going to most affect? They would need to be involved, I would think. They could give you some good case examples or case studies that would make sure we ticked all those boxes of some the issues the guys are facing or the industry's facing at the moment.<sup>205</sup>

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<sup>201</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 6.

<sup>202</sup> KPMG, *Submission 4*, p. 1.

<sup>203</sup> KPMG, *Submission 4*, p. 1.

<sup>204</sup> Mr Greg Gocher, *Committee Hansard*, 1 August 2018, p. 37.

<sup>205</sup> Mr Greg Gocher, *Committee Hansard*, 1 August 2018, p. 37.

- 3.116 Marketing and Product Development at Naturally Good Products Pty Ltd, Mrs Connie Manglaviti, recommends Government strive to keep trade agreements lean and simple to get the best outcome for everybody.<sup>206</sup>

For small business, it is keeping it as simple as possible and as lean as possible so that we can access things more quickly and respond more quickly. I know that for us in manufacturing it's all about lean manufacturing and being quick to market. You've got to be innovative. But somehow the process could be simpler. I don't know how you'd do that, but it would be keeping it lean and simpler for people coming in. I think food businesses come from all different angles, so we don't always have large departments that can go through all the different parts of it.<sup>207</sup>

- 3.117 General Manager of the Commercial Fishermen's Cooperative Ltd in Newcastle, NSW, Mr Robert Gauta, believe governments need to listen to the business users of FTAs.<sup>208</sup>

I think the most important thing in our industry is to consult with the real world. Get the stakeholders involved when making decisions in bureaucracy.<sup>209</sup>

- 3.118 The Managing Director of Robotic Systems, Mr Adam Amos, thinks most SMEs would welcome good export advice, not just the rules of trade, from Government-funded advisors experienced in business, exporting and the trade issues at hand.<sup>210</sup>

The people who are available to give consultative advice are very important for small companies like ours. What we're looking for in the person who's giving advice though is somebody who has 20-plus years of practical experience in dealing with your industry in the country you want to deal with. If somebody's going to come out and read us the rules, it's really not helpful—because we can do that—but practical advice, we're looking for. If it's not necessarily a person within the government maybe it's the government contracting-in a specialist, in that industry, who's maybe even of semi-retired status. That would be extremely valuable for new players.<sup>211</sup>

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<sup>206</sup> Mrs Connie Manglaviti, *Committee Hansard*, 30 July 2018, p. 12.

<sup>207</sup> Mrs Connie Manglaviti, *Committee Hansard*, 30 July 2018, p. 12.

<sup>208</sup> Mr Robert Gauta, *Committee Hansard*, 1 August 2018, p. 37.

<sup>209</sup> Mr Robert Gauta, *Committee Hansard*, 1 August 2018, p. 37.

<sup>210</sup> Mr Adam Amos, *Committee Hansard*, 1 August 2018, pp. 37-38.

<sup>211</sup> Mr Adam Amos, *Committee Hansard*, 1 August 2018, pp. 37-38.



- 3.119 Mr David Rynne, Director, Policy, Economics and Trade, Australian Sugar Milling Council believes Government must definitely engage with industry early to identify opportunities in regions that an FTA might take shape in.<sup>212</sup>

Industry will, at times, need assistance to do those opportunity assessments. Maybe it's small grants to do an opportunity assessment in terms of what the benefits statement actually looks like times. The sugar industry will sell its product when the opportunity arises, so we don't need assistance there. It's just scoping what the opportunity statement looks like. Where we can maximise our tonnes of sugar is what we need assistance with, and the sugar industry is about to do that process.<sup>213</sup>

- 3.120 As critical as the offensive, FTA proactive stuff is the defence of keeping countries to account to their WTO obligations. Australia is going to have to do some very heavy lifting there to protect its interests over the next 10 years.
- 3.121 The Australian Industry Defence Network Victoria insisted greater involvement of business in the development of FTAs - during both pre and post-negotiation stages will ensure commercial realities and wants or needs are accounted for.<sup>214</sup>
- 3.122 For SMEs there are unique challenges and concerns which are not represented by Industry Primes. The Government needs to identify ways in which to "better engage SME industry peak bodies in soliciting inputs from the SME community in the development of FTAs".<sup>215</sup>
- 3.123 According to KPMG, export-ready Australian businesses must engage proactively with key stakeholders to ensure that trade rules are pragmatically beneficial to their commercial interests. KPMG identified the key stakeholders as:<sup>216</sup>
- Australian Government trade departments/agencies (Department of Foreign Affairs and Trade (DFAT), Austrade and state and territory government trade and investment offices);
  - Professional advisors and industry representatives (industry associations/ chambers of commerce); and

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<sup>212</sup> Mr David Rynne, *Committee Hansard*, 4 October 2018, p. 25.

<sup>213</sup> Mr David Rynne, *Committee Hansard*, 4 October 2018, p. 25.

<sup>214</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 3.

<sup>215</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 3.

<sup>216</sup> KPMG, *Submission 4*, p. 1.

- Diplomatic networks within Australia and abroad (Embassies and consulates, Missions to the WTO, Trade Support Institutions etc.)

3.124 KPMG sees a role for professional trade consultants such as itself alongside Austrade to raise greater awareness and understanding of the benefits of FTAs, especially for SMEs.<sup>217</sup>

Once FTAs enter into force, the role of trade support institutions and professional advisors and institutions, such as Austrade and KPMG, becomes essential in raising awareness of and explaining the functioning of often complex rules. This is particularly evident with regard to SMEs, which generally lack the necessary in-house technical expertise and systems to utilise FTAs effectively.<sup>218</sup>

## Feedback from businesses in Queensland

3.125 The President of the Australian Taiwanese Chamber of Commerce (QLD); Mr Simon Yeh, said it is good idea to get the associations and chambers of commerce to pass on the message about FTAs to SMEs. Mr Yeh said what's important for SMEs to understand is that there is a "policy in place for certain countries and what the rules are, so the opportunity is presented to them".<sup>219</sup>

Whether or not they take it, obviously that's their job. But what we as a chamber of commerce would like is to have someone from government come to us and maybe have a chat about this agreement so that, if anyone wants to do business in that area, at least they know where to seek help.<sup>220</sup>

3.126 The Founder and Chief Executive Officer of the Small Business Association of Australia, Mrs Anne Nalder, said she would like to see more consultations on trade agreements between government and businesses take place more frequently.<sup>221</sup>

...so we can start keeping an eye out and then be able to present and discuss how we can improve, because it is important to increase the number of SMEs in the export market.

## Figure 3.1 Participants in parliamentary roundtable in Sunnybank

<sup>217</sup> KPMG, *Submission 4*, p. 1.

<sup>218</sup> KPMG, *Submission 4*, p. 1.

<sup>219</sup> Mr Simon Yeh, *Committee Hansard*, 23 July 2018, p. 21.

<sup>220</sup> Mr Simon Yeh, *Committee Hansard*, 23 July 2018, p. 21.

<sup>221</sup> Mrs Anne Nalder, *Committee Hansard*, 23 July 2018, p. 21.



*Committee members and participants in a parliamentary roundtable in Sunnybank, Queensland*

## Consultation on FTAs by other government departments

3.127 The DIIS and DJSB portfolio states it consults broadly with Australian industry to provide considered and appropriate advice throughout the negotiation, implementation and review of FTAs.<sup>222</sup>

In doing so, it aims to ensure that FTAs are as simple as possible for all Australian businesses to use and that SMEs are aware and able to take advantage of the positive outcomes available to them under FTAs.<sup>223</sup>

3.128 In particular, the DIIS and DJSB portfolio is working to encourage greater utilisation of FTAs among SMEs by:

- consulting with industry to provide informed technical advice on tariffs and non-tariff barriers, rules of origin, trade remedies and electronic

<sup>222</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 9.

<sup>223</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, pp. 9-10.

commerce provisions throughout the negotiation, implementation and review of FTAs;

- engaging with Austrade to ensure that knowledge of Australian industry capability and information about international opportunities are effectively linked to inform policy development and program delivery; and
- administering initiatives which form part of (or supplement) the Australian Government's National Innovation and Science Agenda to build business capability and help SMEs become 'export ready'.

## Harmonising Australia's free trade agreements

3.129 The Australian Government has advocated for the development of bilateral agreements with major trading partners as "stepping stones" towards a final World Trade Organisation agreement, according to the Australian Chamber of Commerce and Industry. As each free trade agreement is different, the ACCI notes the challenge will be how will these disparate agreements can come together and be harmonised.<sup>224</sup>

3.130 The ACCI submitted as the number of Preferential Trade Agreements (PTA) available to Australian SMEs grows, so does the confusion and inconsistency for exporters within the overlapping agreements.<sup>225</sup>

The "noodle bowl" continues to grow, and this can be seen as a significant barrier to trade amongst Australian SMEs. While there are benefits to having both bilateral and multilateral PTA's in place, ensuring that there is a consistent approach across all agreements is important. The Australian Chamber has previously expressed concerns with respect to the harmonisation of the disparate agreements. However, as the noodle bowl deepens, as does the complexity of harmonisation.<sup>226</sup>

3.131 In addition to the overlapping agreements, the ACCI outlines there are agreements in places that are unnecessarily complicated. An example of this according to the ACCI is the ASEAN-Australia-New Zealand Free Trade Agreement. ASEAN member Indonesia has not yet implemented the 'First

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<sup>224</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 13.

<sup>225</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 13.

<sup>226</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 13.

Protocol' Certificate of Origin Template, despite the adoption from all other member nations.<sup>227</sup>

Such basic challenges provide unnecessary pitfalls for uneducated SMEs, and restrict access to the FTA. In this case, the Federal Government should continue to work to promote Indonesia's alignment to the First Protocol.<sup>228</sup>

- 3.132 The ACCI believes the development of wider regional agreements, should make it possible to review and reconsider the value of the superseded bilateral agreements.<sup>229</sup>

The Government can significantly reduce the "noodle bowl" issues by commencing a programme of withdrawal from historic bilateral trade agreements that have been superseded by the newer regional agreements. The Government has already begun this task in terms of investment treaties and should now expand this to trade agreements.<sup>230</sup>

- 3.133 Ideally having consistency between FTAs is important, according Business SA, and "while it can be hard to go back, all efforts should be made to ensure any future EU or British FTA is as consistent as possible with previous agreements".<sup>231</sup>

For example, rules around shipping through third party countries and what is, and is not, permissible to maintain Australian origin eligibility in the importing country should be made consistent.<sup>232</sup>

- 3.134 There are already a range of variants within existing FTAs and Business SA wants the Australian Government to be looking at "how to accommodate increasingly sophisticated global supply chains while ensuring that in as many circumstances as is reasonable, Australian goods can be exported duty free".<sup>233</sup>

It is already challenging enough for SMEs to understand the eligibility of products under each FTA and if the Federal Government wants to encourage

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<sup>227</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 13.

<sup>228</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 13.

<sup>229</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 13.

<sup>230</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 13.

<sup>231</sup> Business SA, *Submission 15*, p. 3.

<sup>232</sup> Business SA, *Submission 15*, p. 3.

<sup>233</sup> Business SA, *Submission 15*, p. 3.

more SME exports, it needs to ensure future rules it agrees to are not prohibitively complex.<sup>234</sup>

- 3.135 Mr David Blackstock, General Manager, Policy, for the Department of Trade, Tourism and Investment, South Australia, wants DFAT's trade negotiators to find more consistency across upcoming free trade agreements.

...the Commonwealth could also, in addressing future FTA negotiations and reviewing the FTAs that are in place, make more of an effort to keep the FTAs consistent. FTAs are by their nature bilateral arrangements and there will never be full consistency, but some of the problems that SMEs have are clearly a result of the complexity of some of the FTAs and the wide variety of conditions that are contained in them. A little more consistency would certainly help.<sup>235</sup>

## Addressing the needs of SMEs in FTAs

- 3.136 DFAT submitted the Australian Government's approach to negotiating FTAs is to consult widely, including with SMEs, before, during and after the negotiation process, to ensure FTAs deliver benefits to the full spectrum of Australian businesses of all sizes with respect to goods, services and investment.<sup>236</sup>

Australian negotiators strive to ensure that rules of origin and other elements of FTAs are as trade facilitative as possible – though FTAs by definition involve other countries, with different approaches to regulation.<sup>237</sup>

- 3.137 The focus on trade facilitative approaches is one reason, according to DFAT, why the CPTPP and the Peru-Australia FTA both features dedicated SME chapters, which encourages SME participation in government procurement opportunities in all TPP countries. The chapter dedicated to SMEs in the TPP-11 creates common and transparent trade and investment rules among TPP-11 parties.<sup>238</sup>

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<sup>234</sup> Business SA, *Submission 15*, p. 3.

<sup>235</sup> Mr David Blackstock, *Committee Hansard*, 3 August 2018, p. 26.

<sup>236</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 2.

<sup>237</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 2.

<sup>238</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 2.

3.138 As for older FTAs such as the US FTA which operates on a self-certified basis, there are generally not so many issues understanding them, according to Business SA.<sup>239</sup>

Japan, Sth Korea, NZ and other FTAs also seem to be working well. China FTA issues are possibly exacerbated by the way in which the Chinese Government manages the process and how stringent (or rigid) they are – i.e. these issues are magnified because of a less flexible approach from the importing country.<sup>240</sup>

3.139 With each FTA negotiation, DFAT outlined it welcomed submissions and feedback from all stakeholders, although the views of SMEs often reach the Government through peak bodies and business groups, such as the Australian Chamber of Commerce and Industry or Australian Industry Group.<sup>241</sup>

For example, representations by industry stakeholders contributed to JAEPA outcomes, particularly improved export market access for horticultural products such as natural honey and walnuts.<sup>242</sup>

3.140 DFAT outlined it is constantly reassessing how the Government to liaise best with SMEs.

In the Pacific Alliance negotiations, to reach more mining equipment technology services (METS) suppliers, many of whom are SMEs, DFAT developed an online survey about their trade needs and patterns.<sup>243</sup>

3.141 Ms Alison Airey, Chief Executive Officer of the New South Wales Branch, Australia China Business Council believes Government needs to host forums with business representatives and exporters after FTAs have been signed and in operation to iron out any issues in future negotiations.

...government should involve businesses more in the follow-up and the implementation of free trade agreements to ensure that they're working as effectively as possible in a practical sense.<sup>244</sup>

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<sup>239</sup> Business SA, *Submission 15*, p. 2.

<sup>240</sup> Business SA, *Submission 15*, p. 2.

<sup>241</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 6.

<sup>242</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 6.

<sup>243</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 6.

<sup>244</sup> Ms Alison Airey, *Committee Hansard*, 2 August 2018, p. 22.

3.142 According to DFAT, Australia's FTAs increasingly include chapters that address the needs of SMEs.<sup>245</sup>

The approach taken in these chapters is to focus on transparency of trade obligations and cooperation, with a view to improving SME trade within the FTA. The transparency obligations require the publication of information relevant to SMEs to assist them in benefitting from the opportunities created by the FTA.<sup>246</sup>

3.143 DFAT highlighted the emphasis on SMEs in its Peru–Australia Free Trade Agreement concluded in February 2018 and its stated obligations regarding cooperation between the trading partners to grow and promote SME trade.<sup>247</sup>

This includes nominating contact points on SMEs that will:

- identify ways to assist SMEs to take advantage of FTAs;
- exchange experiences on best practices to support SME exporters;
- explore opportunities for capacity building opportunities to enhance SME export counselling, assistance and training programs; and
- facilitate the development of programs to assist SMEs to participate in, and contribute to, global supply chains.<sup>248</sup>

3.144 Mr Todd Mercer, Assistant Secretary—FTA Policy and Implementation Branch, at DFAT, highlighted the shared perceived need across the membership of those negotiations was that the interests of SMEs needed to be taken account of.<sup>249</sup>

So there was a commitment from the beginning that there would be attention given to the interests of SMEs...Government procurement is just an example. In terms of government procurement, all of our FTA government procurement chapters include a carve-out, an exception in our schedule, which allows us to implement policies which preference SMEs. So we've always had that in there. It's something we've insisted on.<sup>250</sup>

<sup>245</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 4.

<sup>246</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, pp. 4-5.

<sup>247</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 5.

<sup>248</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 5.

<sup>249</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 4.

<sup>250</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 4.



3.145 DFAT regarded the use of contact points will enable the Government's support to SMEs to evolve as the needs of SMEs change. PAFTA's contained a SME-specific chapter as outlined below.

## **Chapter on SMEs in the Peru–Australia Free Trade Agreement**

3.146 Peru-Australia FTA Article 23.3: Activities and Contact Points on SMEs:<sup>251</sup>

- Each Party shall designate and notify a contact point on SMEs, to facilitate communications between the Parties on any matter covered by this Chapter.
- Where appropriate, the contact points shall facilitate the coordination of meetings between government representatives of each Party to address any matter covered by this Chapter.
- The Parties shall, to the extent possible:
  - a. discuss ways to assist SMEs of the Parties to take advantage of the commercial opportunities under this Agreement, including but not limited to, considering ways to develop mechanisms in order to foster partnerships and the development of productive chains;
  - b. exchange and discuss each Party's experiences and best practices in supporting and assisting SME exporters with respect to, among other things, training programmes, trade education, trade finance, identifying commercial partners between the Parties and establishing good business credentials;
  - c. facilitate access to trade promotion networks, business fora, business cooperation instruments, and any other relevant information for SME exporters;
  - d. promote seminars, workshops or other activities to inform SMEs of the benefits available to them under this Agreement;
  - e. explore opportunities for capacity building to assist each Party in developing and enhancing SME export counselling, assistance and training programmes;
  - f. explore opportunities for the development of programmes to assist SMEs to participate and integrate effectively into the global supply chain;
  - g. exchange information to assist in monitoring the implementation of this Agreement as it relates to SMEs;

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<sup>251</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 5.

- h. facilitate provision of recommendations to the Joint Commission; and
  - i. consider any other matter pertaining to SMEs, including any issues raised by SMEs regarding their ability to benefit from this Agreement.
- The Parties may seek to collaborate with appropriate experts and international donor organisations in carrying out their programmes and activities.<sup>252</sup>

### Recommendation 3

**3.147 The Committee recommends that the Australian Government seek to make free trade agreements (FTA) more relevant to Australian small and medium enterprises (SMEs) by:**

- **Including specific SME chapters or specific obligations to assist SMEs to access trade opportunities in future FTAs;**
- **Improving consistency between overlapping FTAs to reduce complexity for business users where the same exported product, for example, may receive different treatment depending on which trade agreement is applied; and**
- **Strengthening support for a robust system of Certificates of Origin that are accepted globally and for other reputable bodies to issue Certificates of Origin, as long as standards are not compromised.**

## Market access protocols for food in FTAs

**3.148** Australian Pork Ltd submitted the East Asian region contains several large, prosperous markets, with very strong demand for pork but the Australian pork industry struggles to reliably deliver the large quantities expected by major importers.<sup>253</sup>

**3.149** Despite supply issues, Australian Pork Ltd admitted some of Australia's FTAs do offer meaningful international market access advantages to Australian pork producers. Under the Japan-Australian Economic

<sup>252</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 5.

<sup>253</sup> Australian Pork Ltd, *Submission 20*, p. 2.

Partnership Agreement, Australian pork enjoys tariff treatment superior to any of Japan's other trading partners.<sup>254</sup>

However, there are instances where pork producers are unable to access FTAs due to non-tariff barriers in the target market. These affect all producers, large and small.<sup>255</sup>

- 3.150 The China-Australia FTA offers significant advantages for Australian pork, according to Australian Pork, with tariffs up to 20 percent phased out by next year. APL considered these tariff advantages are hypothetical only, as "Australia is yet to secure a market access protocol with Chinese authorities to allow the importation of Australian pork".<sup>256</sup>

The failure is not in the FTA, or in the surrounding regulation, but in the limited resources and capabilities of the Department of Agriculture and Water Resources, and demand on these limited resources from exporters across multiple commodities to access China. The Department has been unable to negotiate a protocol, despite initially lodging an application with Chinese authorities more than ten years ago.<sup>257</sup>

- 3.151 The Chamber of Commerce and Industry of Western Australia (CCI) warned it can take several years for a food species to be approved and added to a market access protocol.<sup>258</sup>

Such long approval times for a species to be added to a FTA creates a substantial barrier to SMEs wanting to gain access to markets, such as those for meat, fresh food and dairy.<sup>259</sup>

- 3.152 The CCI stressed the importance of having a food species such as Haas avocados added to a FTA.<sup>260</sup>

...is highlighted by successful negotiations that resulted in Australia's ability to export avocados (hard, mature Hass avocados from areas not affected by

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<sup>254</sup> Australian Pork Ltd, *Submission 20*, p. 2.

<sup>255</sup> Australian Pork Ltd, *Submission 20*, p. 2.

<sup>256</sup> Australian Pork Ltd, *Submission 20*, p. 2.

<sup>257</sup> Australian Pork Ltd, *Submission 20*, pp. 2-3.

<sup>258</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 4.

<sup>259</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 4.

<sup>260</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 4.

Queensland fruit fly) to Japan from 26 January 2018. This is viewed as a significant opportunity for WA avocado farmers.<sup>261</sup>

## **Victoria wants improved access for agriculture**

3.153 The Victorian Government submitted a key interest for Victoria is it wanted improved market access for agricultural products.<sup>262</sup>

3.154 The Victorian Government conceded that FTAs have improved market access for a range of products to some of Victoria's largest export markets. In 2017, Victoria's goods exports to current FTA partners were worth \$18 billion (or 69 per cent of total goods exports), a 15 per cent annual increase. China alone receives over 27 per cent of goods exports.<sup>263</sup>

However, while FTAs may complement and provide momentum to wider, national trade objectives, we also encourage the Commonwealth Government to prioritise multilateral liberalisation through the World Trade Organisation (WTO) and keep it at the forefront of Australia's trade policy agenda.<sup>264</sup>

## **Some states' food produce is excluded by some FTAs**

3.155 However the CCI cautioned how a product appearing on the import list of a FTA does not necessarily benefit all states.<sup>265</sup>

3.156 For example CCI submitted that due to quarantine laws, the Korean-Australia Free Trade Agreement (KAFTA) does not allow the following products to be imported from certain states in Australia:<sup>266</sup>

- Potatoes (except from WA and Victoria)
- Carrots (only from Tasmania)
- Cherries (only from Tasmania)

<sup>261</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 4.

<sup>262</sup> Victorian Government, *Submission 35*, p. 5.

<sup>263</sup> Victorian Government, *Submission 35*, p. 5.

<sup>264</sup> Victorian Government, *Submission 35*, p. 5.

<sup>265</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 4.

<sup>266</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 4.

## Seeking an economic partnership with Taiwan

- 3.157 The Australia-Taiwan Business Council Ltd submitted that on economic grounds, the Australian Government should pursue an FTA with Taiwan as Taiwan is Australia's seventh largest export market.<sup>267</sup>

The direct benefits of a proposed FTA with Taiwan seem heavily weighted in Australia's favour. Australia exports A\$8,756 million to Taiwan and received imports of A\$4,662 million, meaning the duty revenue forgone for the agreement will likely be outweighed by the increased revenue for Australian exporters.<sup>268</sup>

- 3.158 The ATBC insisted that Australian exporters are missing out on trade opportunities despite the One China Policy enforced by the People's Republic of China and acknowledged by Australia, because "Taiwan is excluded from the benefits of the China-Australia Free Trade Agreement".<sup>269</sup>

Consequently, all imports into Taiwan from Australia are subject to high tariffs. These extra costs result in Australian exporters losing market share in Taiwan, mainly to New Zealand, which has had an FTA in place with Taiwan since 2013. These Australian exporters lament the loss of opportunity, loss of market share and lack of level playing field in the absence of an FTA.<sup>270</sup>

- 3.159 The ATBC believed that strategically, Australia pursuing a free trade agreement with Taiwan is consistent with its liberalisation approach to foreign trade and relations with economies in the Asia Pacific region.<sup>271</sup>

- 3.160 A Director at the ATBC, Mr Mark Hardy, sees many positives from an FTA.

A free trade agreement with Taiwan would seem to be very beneficial to several sectors in the Australian economy in making our exports more competitive.<sup>272</sup>

- 3.161 The ATBC pointed out that Taiwan has entered two FTAs with nations it does not maintain diplomatic relations with and one of them, New Zealand, makes for a good case study for Australia into the successful

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<sup>267</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 1.

<sup>268</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 2.

<sup>269</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 1.

<sup>270</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 1.

<sup>271</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 2.

<sup>272</sup> Mr Mark Hardy, *Committee Hansard*, 2 August 2018, p. 41.

implementation of an FTA with Taiwan as New Zealand markets many of the same products to Taiwan as Australia.<sup>273</sup>

Notable commonalities between Australia and New Zealand's exports are horticultural and agricultural products, including beef, dairy products, fresh produce, and wine. The first two years of the agreement saw New Zealand's exports to Taiwan rise by 22 per cent, therefore similar outcomes can be expected for Australia.<sup>274</sup>

3.162 Considering Singapore also has a trade agreement with China, the ATBC questioned the Australian Government's underlying rationale for not implementing an FTA with Taiwan was a desire not to upset diplomatic relations with China, despite New Zealand and Singapore both being "examples of successful agreements which do not impinge on China's One China Policy".<sup>275</sup>

3.163 The ATBC suggested Australian Government can take great care to protect relations with China by maintaining an "appearance of abiding by the One China Policy".<sup>276</sup>

3.164 The ATBC explained how New Zealand and Singapore achieved their agreements by formally recognising Taiwan as Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu; creating agreements as trading markets as opposed to nations.<sup>277</sup>

New Zealand carefully titled their FTA: "The Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation (ANZTEC)"; and Singapore: "The Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP)".<sup>278</sup>

3.165 While the ATBC expressed concerns that several of the bilateral free trade agreements negotiated by Australia have been "done in haste" and over-sold, there remained benefits from FTAs.<sup>279</sup>

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<sup>273</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 2.

<sup>274</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 2.

<sup>275</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, pp. 2-3.

<sup>276</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 3.

<sup>277</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 3.

<sup>278</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 3.

<sup>279</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, pp. 1-2.

The ATBC also believes that even the best FTAs are not as important in opening markets as the ingenuity and resourcefulness of the best Australian exporters.<sup>280</sup>

## Considerations for the FTA with the European Union

### Common rulebook for trade between Australia and the EU

- 3.166 Anecdotal evidence from the members of the German Australian Business Council (GABC) believed the “opportunities to export products without additional approval requirements and with a common rule book are a major incentive to encouraging exports”.<sup>281</sup>

We believe that the establishment of a common rule book with mutually agreed standards and the acceptance of approvals from other member states is a major incentive to encouraging SMEs to take advantage of a free trade agreement. SMEs do not have the connections in other countries to monitor new regulations and to arrange for approvals.<sup>282</sup>

- 3.167 It should be the aim of Australia in any free trade agreement, according to the GABC, with its partners to establish a common rule book to simplify export of products and to provide for mutual recognition of approvals.<sup>283</sup>

### Labour mobility between the EU and Australia

- 3.168 German Australian Business Council (GABC) submitted that one of the most difficult areas to address in free trade agreements is that of labour mobility.<sup>284</sup>

- 3.169 It is generally thought that the EU’s principle of Freedom of Movement was one of the major factors that led to the majority in the UK’s referendum choosing to vote to leave the European Union, according to the GABC.<sup>285</sup>

We have heard from some companies who have noted that the changes to Australia’s visa regulations have complicated the movement of staff. Larger companies employ their own HR or expert staff to manage the movement of

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<sup>280</sup> Australia-Taiwan Business Council Ltd, *Submission 32*, p. 2.

<sup>281</sup> German Australian Business Council, *Submission 36*, p. 3.

<sup>282</sup> German Australian Business Council, *Submission 36*, p. 3.

<sup>283</sup> German Australian Business Council, *Submission 36*, p. 3.

<sup>284</sup> German Australian Business Council, *Submission 36*, p. 4.

<sup>285</sup> German Australian Business Council, *Submission 36*, p. 4.

employees between countries (and/or they have sufficient funds to engage agencies). SMEs, however, rely on their own, often limited resources and experience in such context.<sup>286</sup>

3.170 The GABC noted the current Australian business visa allows SME employees to market their products and services into Australia but moving key personnel to Australia is apparently more difficult. The GABC supported the provisions of Comprehensive Economic and Trade Agreement between the EU and Canada, under which key personnel can be given a visa for up to three years seem to be a reasonable basis.<sup>287</sup>

On the other hand, we know of a number of Australians who have come to Germany to support their businesses and have found little difficulty in obtaining the necessary visas. One of our contacts, for example, in Munich has received significant help from the Bavarian state government. The state government sees a benefit in encouraging a subsidiary of an Australian company to set up in the state and also provides some funding to help the company.<sup>288</sup>

3.171 The GABC raised a number of other issues associated with labour mobility, including employment of life partners (spouses), health insurance and recognition of pension contributions that impede labour mobility and will need to be addressed during negotiations.<sup>289</sup>

Some agreements are in place, such as the double taxation and social security agreements between Australia and some countries, but we understand that these need to be updated in several cases.<sup>290</sup>

## **Mining equipment, technology and services sector in FTAs**

3.172 General Manager of International Markets for METS Ignited Australia Ltd, Mrs Clare Sykes, believed there was merit in including the METS acronym for mining equipment, technology and services sector within an FTA.<sup>291</sup>

<sup>286</sup> German Australian Business Council, *Submission 36*, p. 4.

<sup>287</sup> German Australian Business Council, *Submission 36*, p. 4.

<sup>288</sup> German Australian Business Council, *Submission 36*, p. 4.

<sup>289</sup> German Australian Business Council, *Submission 36*, p. 4.

<sup>290</sup> German Australian Business Council, *Submission 36*, p. 4.

<sup>291</sup> Mrs Clare Sykes, *Committee Hansard*, 23 July 2018, p. 15.



...the inclusion of the acronym 'METS' in free trade agreements would be a positive outcome. It's creating that linkage to SMEs, whether that's through assessing the education piece and ensuring that the accessibility of the education piece is optimised, or through physical seminars and educational webinars or other platforms.<sup>292</sup>

3.173 The Newcastle-headquartered manufacturer of strata reinforcement and support products for the underground mining, DSI Underground, submitted that Australian companies or exporters would benefit from knowing more about the Government's process for identifying what "products and services get included and prioritised" in FTAs.<sup>293</sup>

3.174 DSI Underground indicated more knowledge of the process would allow it to highlight to DFAT any issues it faces at its operation in Indonesia during the trade negotiations with Indonesia.

...to support the activities performed at this operation [in Indonesia], DSI import raw materials, specialised tools and equipment from Australia as required. In the past DSI have been required to pay various import tariff amounts ranging from 5 – 50 per cent in some cases for goods not available from Indonesia.<sup>294</sup>

3.175 DSI Underground outlined a belief that more consideration should be given to the impact on growth in the domestic market when negotiating a FTA. The recent acquisition by DSI of a business from the HILTI group provided DSI with the opportunity to consolidate and relocate existing manufacturing operations in China back to Australia.<sup>295</sup>

When considering the relocation DSI enquired with various government and industry bodies regarding financial assistance to support the relocation. With little to no positive feedback DSI made the decision to consolidate and relocate the existing operations to a coastal city close to a sea port in China. Key to the decision by DSI was the zero import tariff applicable under ChAFTA, and the significant export incentive offered by the Chinese Government to the local Chinese manufacturer.<sup>296</sup>

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<sup>292</sup> Mrs Clare Sykes, *Committee Hansard*, 23 July 2018, p. 15.

<sup>293</sup> DSI Underground, *Submission 39*, p. 2.

<sup>294</sup> DSI Underground, *Submission 39*, p. 2.

<sup>295</sup> DSI Underground, *Submission 39*, p. 2.

<sup>296</sup> DSI Underground, *Submission 39*, p. 2.

3.176 DSI Underground also raised issues about the difference between Anti-Dumping and FTAs and what support exists for SME's to "effectively manage collateral damage to existing domestic operations".<sup>297</sup>

Due to the reliance on Australian steel producers for its raw material and the successful anti-dumping action by the Australian steel producers covering those raw materials, DSI finds itself in a position where it makes commercial sense to export Australian made raw material to its Indonesian manufacturing operation for processing then import those value added finished goods back into Australia.<sup>298</sup>

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<sup>297</sup> DSI Underground, *Submission 39*, p. 2.

<sup>298</sup> DSI Underground, *Submission 39*, p. 2.

## 4. Awareness of, and accessibility to, free trade agreements

### Raising awareness of FTAs and SMEs' trade opportunities

- 4.1 Mr Warren Cross, the Senior Legal Counsel at Cross & Co Lawyers believes more SMEs, especially those involved in services, need greater awareness of the trade opportunities.<sup>1</sup>

I think knowledge is power. We have to increase the ability of SMEs to know what the opportunities are. I think that's the great challenge. They simply don't know, other than in the commodity space. I don't work in that space, but I know it's well publicised in that space. But in services, which are the area that I think we've got our big opportunities in Asia, we've got to have knowledge being passed to them about what the opportunity is and how they can execute.<sup>2</sup>

- 4.2 Australia's national centre for assisting businesses to develop their Asian capabilities, Asialink Business, submitted that a "residual lack of awareness about FTAs amongst certain segments of the FTA market is an ongoing barrier to FTA utilisation".<sup>3</sup>

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<sup>1</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 49.

<sup>2</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 49.

<sup>3</sup> Asialink Business, *Submission 17*, p. 3.

- 4.3 While Asialink Business believed the Government's trade agenda of recent years is helping to address this challenge, "significant knowledge gaps remain, including amongst regional and rural business".<sup>4</sup>

These gaps include (but are not limited to); how to access the benefits of particular FTAs, access and utilise tariff reductions and other benefits, and what publicly available tools are available to assist. Initiatives such as the FTA Portal have helped expand the pool of available resources for SMEs, but the level of awareness about these tools remains mixed.<sup>5</sup>

**Figure 4.1** SME participants at roundtable in Yandina, Sunshine Coast



*Committee members and SME participants at a roundtable in Yandina, Sunshine Coast.*

- 4.4 The Managing Director, Eco Energy Group Ltd, Mr Lionel Barden, warned more that more needed to be done by Government to encourage smaller exporters to utilise FTAs.

If you as a government, on behalf of Australia, are spending so much time and effort on free trade agreements, we should spend the same amount of time

<sup>4</sup> Asialink Business, *Submission 17*, p. 3.

<sup>5</sup> Asialink Business, *Submission 17*, p. 3.

nurturing small business to turn towards exporting. I think it's really, really important, and we don't do it. Even the policies don't fit small business.<sup>6</sup>

- 4.5 The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) remains concerned that SMEs continue to lack understanding of FTAs to their benefit.<sup>7</sup>

In particular, SMEs need a greater understanding of the differences between the various FTAs, rules and associated certification requirements across multiple agreements. This issue has been raised in previous reviews and inquiries with little progress made to date.<sup>8</sup>

- 4.6 ASBFEO outlined the current tools available to raise FTAs awareness are complex and focus on the DFAT outreach programme and the online FTA portal.<sup>9</sup>

Considering that SMEs tend to lag behind larger businesses in their use of technology, we recommend using alternative modes of delivery of information to meet SMEs needs: e.g. small business agencies, chambers of commerce, and industry association networks.<sup>10</sup>

In addition, we also encourage increasing SMEs awareness of all ten FTAs (bilateral and multilateral), as the DFAT's outreach programme focuses mainly on the North Asia FTAs (Korea, Japan and China).<sup>11</sup>

- 4.7 ASBFEO submitted concern that considering Australia's 2.2 million SMEs contribute to around a third of our GDP, this is not reflected in SMEs' participation in international trade.<sup>12</sup>

SMEs account for 14 per cent of Australian goods' exports, in comparison to G7 nations where they account for 25 per cent and in the EU 35 per cent. SMEs need more support to grow their business and access international markets, particularly those supported by an increasing number of FTAs.<sup>13</sup>

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<sup>6</sup> Mr Lionel Barden, *Committee Hansard*, 23 July 2018, p. 21.

<sup>7</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 1.

<sup>8</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 1.

<sup>9</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 1.

<sup>10</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 1.

<sup>11</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 1.

<sup>12</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 2.

<sup>13</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 2.

- 4.8 The Australian Small Business and Family Enterprise Ombudsman Ms Kate Carnell admitted while small and medium businesses are the engine room of Australia's economy, too many don't know enough about FTAs or find the agreements too complex to pursue export opportunities.<sup>14</sup>

In the area of free trade agreements, the great dilemma is the complexity of the space... it's not even as simple as understanding that there's a free trade agreement with Malaysia; you've got to understand that there are five of them... So, one of the challenges here is the fact that every new agreement sits on top of current agreements.<sup>15</sup>

There are as you know a range of bilateral agreements, which is good, and now increasingly multilateral agreements that sit on top of the range of bilateral agreements, so for small businesses to actually get their head around what that looks like—how to comply, what the opportunities are and so on—is extraordinarily difficult. These documents, as you would know, are thousands of pages long.<sup>16</sup>

- 4.9 Ms Carnell pointed out a recent survey by the SME Growth Index that showed many people involved with running SMEs are often working 70 to 80 hours a week.<sup>17</sup>

What we see is there are still a very large percentage of small and medium businesses that simply don't know what the opportunities are. When they try to find out, it looks all too difficult... Then they're struck with a huge amount of extra information to get their head around, and, in many cases, they don't even know what questions to ask. So, they decide it's just too difficult.<sup>18</sup>

- 4.10 Mr Bryan Clark, Director, Trade and International Affairs, Australian Chamber of Commerce and Industry highlighted that businesses or exporters rarely will ever read the complex contents of a trade agreement.<sup>19</sup>

The most fundamental thing we find is that, in terms of trade agreements, businesses don't read them, so businesses don't understand them. While they might be deeply interesting at a technical level to the people who do the negotiations and to perhaps people like me, who are in a role that means that

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<sup>14</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 1.

<sup>15</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 1.

<sup>16</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 1.

<sup>17</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 1.

<sup>18</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 1.

<sup>19</sup> Mr Bryan Clark, *Committee Hansard*, 13 August 2018, p. 9.

we need to be familiar with them, the business community doesn't read them. The business community thinks that the trade agreements and their terms are automatic and apply directly, when that's not the case. So there is then quite a compliance arrangement which goes with them. So our recommendation has been to consider the removing of historic agreements so that the red tape and the complexity are removed as we do new and better improved agreements.<sup>20</sup>

- 4.11 Ms Olga Kostic, an Export Adviser at Business SA, believes many SMEs need one on one advice about utilising FTAs to trade goods or services.<sup>21</sup>

I'm involved in the very hands-on approach of working with the exporters. Certainly, what I would like for them, to step them through the benefits so they can clearly see the competitive advantage that is offered by an FTA before and after, is a very clear description.<sup>22</sup>

- 4.12 The Australian Government, according to DFAT, accepts that trading can be a complex and challenging journey for SMEs, particularly for those looking to export or import for the first time.<sup>23</sup>

To become “trade ready” and position itself to benefit from FTAs, an SME needs to take a number of steps, including:<sup>24</sup>

- identify which of its goods or services is able to compete internationally;
- consider what imports could make its goods and services competitive domestically and internationally;
- research potential markets for that product or service;
- establish links with traders/customers in target markets;
- make financial, legal and logistical arrangements;
- understand how to access FTA benefits; and
- ensure compliance with regulatory requirements.

- 4.13 The Council of Small Business Organisations of Australia (COSBOSA) submitted while larger businesses are already capitalising on many offerings through free trade agreements (FTAs), “SMEs have an increased opportunity to consider how they might be able to offer goods and services

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<sup>20</sup> Mr Bryan Clark, *Committee Hansard*, 13 August 2018, p. 9.

<sup>21</sup> Ms Olga Kostic, *Committee Hansard*, 3 August 2018, p. 11.

<sup>22</sup> Ms Olga Kostic, *Committee Hansard*, 3 August 2018, p. 11.

<sup>23</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 3.

<sup>24</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 3.

to international customers, particularly with the projection for a rising middle-class in Asia”<sup>25</sup>.

SMEs in Australia have benefitted from increased access to international markets through FTAs; however, many small businesses have struggled to build the expertise needed to develop an effective export arm for their business. While exporting to any nation requires significant effort and information gathering on the part of the small business operator, FTAs are also complex and require expert knowledge to interpret.<sup>26</sup>

- 4.14 For many businesses, according to COSBOSA, understanding the differences in rules between different bilateral FTAs, along with new multilateral FTAs, is challenging.<sup>27</sup>

Individual rules, requirements for authentication or certification, and specific market access is often too complex for time-poor SMEs.<sup>28</sup>

- 4.15 According to academic and free trade expert, Professor Gabriele Suder, access to FTA advantages for SMEs are:<sup>29</sup>

- highly dependent on (ex-ante) FTA negotiations that strive to remove the barriers to trade, given the significant impact this has on SME participation in both intermediate (GVC) and finished goods and services trade;
- and highly dependent on ex-Post impact survey, evaluation and action planning to support training and advice.

- 4.16 Professor Suder submitted that governmental and public-private support and training initiatives are strongly encouraged. Also Professor Suder noted that SME support platforms have been experimented with successfully abroad, especially the Euro Info Centres, for example, that help SMEs in Europe adapt to threats and opportunities, to find partners, and provide information about prevalent legislation.<sup>30</sup>

The Enterprise Europe Network establishes the world's largest support network specifically for internationalising SMEs. The EU reports that “it has

<sup>25</sup> Council of Small Business Organisations of Australia, *Submission 26*, p. 1.

<sup>26</sup> Council of Small Business Organisations of Australia, *Submission 26*, p. 1.

<sup>27</sup> Council of Small Business Organisations of Australia, *Submission 26*, p. 1.

<sup>28</sup> Council of Small Business Organisations of Australia, *Submission 26*, p. 1.

<sup>29</sup> Professor Gabriele Suder, *Submission 3*, p. 3.

<sup>30</sup> Professor Gabriele Suder, *Submission 3*, p. 3.



3,000 experts across 600 member organisations in more than 60 countries.” They are located at EU member states’ chambers of commerce, Eurochambers (comprehensively representing EU business interests), and various organisations.<sup>31</sup>

- 4.17 Mr Heath Baker, Head of Policy, Export Council of Australia, suggested the Government needed to encourage more business into exporting.<sup>32</sup>

...if you want to increase access to FTAs and if you want to increase FTA utilisation then don't look at it as a proportion of businesses that are trading. Look at it as a proportion of all businesses. That should be your goal: get more businesses into trade. More businesses into trade will mean more businesses accessing these agreements.<sup>33</sup>

- 4.18 The Director of Corporate Affairs, Alibaba Group Australia and New Zealand, Mr James Hudson, pointed out despite Australian governments offering a range of government resources to help SMEs, including grants and finance opportunities, “many businesses are either unaware of or fail to understand the landscape and the support available”.<sup>34</sup>

Understanding the application of the FTAs is part of this, but only one part. We believe there is further room to improve the integration and cooperation of the different resources provided by Austrade, the Department of Industry, state governments, Efic and others, making it easier for SMEs to access information and reach their full potential.<sup>35</sup>

- 4.19 Mr Hudson believed technological advancements, despite the pace of change, create opportunities for expansion into global markets for sectors of the population who, in the past, have been excluded from more traditional trade mechanisms.<sup>36</sup>

Alibaba does what it can to promote SMEs and their access to new markets but we are just one company. Government-to-government frameworks liberalising trade, whether bilateral or multilateral, create new opportunities for

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<sup>31</sup> Professor Gabriele Suder, *Submission 3*, p. 3.

<sup>32</sup> Mr Heath Baker, *Committee Hansard*, 2 August 2018, p. 22.

<sup>33</sup> Mr Heath Baker, *Committee Hansard*, 2 August 2018, p. 22.

<sup>34</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

<sup>35</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

<sup>36</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

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Australian businesses. It is in this context that we need to ensure that FTAs keep up-to-date with these emerging challenges.<sup>37</sup>

- 4.20 Mr Hudson outlined that Australian SMEs need assistance to understand and find which one of about 20 or 30 different marketplaces Alibaba has opened that will serve their commercial interest best.<sup>38</sup>

For example, alibaba.com is available in English. It's a wholesale trading platform. Businesses generally join alibaba.com, list their products and then take inquiries from around the world to sell those products in a wholesale A to B manner.<sup>39</sup>

- 4.21 Generally for business to consumer, Mr Hudson shared that the journey for an SME could be one of two paths.<sup>40</sup>

The first path would be that they meet an intermediary who operates a store on one of our marketplaces, and they would then work with that SME to import their products into China, list them on their e-commerce store and sell them into that market.<sup>41</sup>

- 4.22 Mr Hudson explained that cross-border e-commerce is something quite unique in China where the items are essentially posted or sent to a warehouse in a free trade zone and those items are classified as personal goods.<sup>42</sup>

Essentially, the consumer takes the risk of purchasing that product. So, for a snack food company selling cross-border where they're actually posting the items, there's limited documentation required. However, there are various de minimis and thresholds for those products.<sup>43</sup>

- 4.23 Mr Hudson outlined these products would be shipped to the warehouse in China, and then, once the consumers place their orders, those products are then packed and posted to the consumer. He believed country-of-origin

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<sup>37</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

<sup>38</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

<sup>39</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

<sup>40</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

<sup>41</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

<sup>42</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

<sup>43</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

certificates are still required and here are reduced tariffs and reduced inspections on those shipments.<sup>44</sup>

- 4.24 The Department of Industry Innovation and Science's representative in regional NSW, Ms Nicola James, recalls the concerns of exporters about the risks involved and confidence in their supply chain.<sup>45</sup>

The people who I speak to across the region say that the barriers to export are quite high and that the risk factor is very high, particularly when you're just dipping your toe into the market. If there was a way for the government to try and help with those risks to make it a little bit more easier in that regard, I think you might see a lot more people take that initial step.<sup>46</sup>

A lot of those first-time exporters are just very nervous about those risks, and there are a lot of risks, particularly in that fresh market. You obviously want to know that your product is getting to market in as good a fashion as when it left. Confidence in the supply chain, I think, would be helpful.<sup>47</sup>

- 4.25 While there is general coverage in national media, the Sunshine Coast Council believed the focus and attention on FTAs and the benefits that they can leverage for local businesses in regional centres is not comparable to that of the state capitals.<sup>48</sup>
- 4.26 The Sunshine Coast Council contends that further consideration should be given to how this coverage of FTAs, and associated support for business, can be enhanced.<sup>49</sup>

There is a clear opportunity for regionally based businesses to grow their capability and performance and generate new employment by being able to access the markets to which the FTAs apply. However this cannot, and does not, occur when regional level businesses have little to no awareness of the FTAs or how to position themselves to leverage the opportunities that these agreements afford.<sup>50</sup>

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<sup>44</sup> Mr James Hudson, *Committee Hansard*, 15 October 2018, p. 9.

<sup>45</sup> Ms Nicola James, *Committee Hansard*, 31 July 2018, pp. 18-19.

<sup>46</sup> Ms Nicola James, *Committee Hansard*, 31 July 2018, pp. 18-19.

<sup>47</sup> Ms Nicola James, *Committee Hansard*, 31 July 2018, pp. 18-19.

<sup>48</sup> Sunshine Coast Council, *Submission 9*, p. 1.

<sup>49</sup> Sunshine Coast Council, *Submission 9*, p. 1.

<sup>50</sup> Sunshine Coast Council, *Submission 9*, p. 1.

- 4.27 The Sunshine Coast Council stressed small and medium enterprises (SMEs) would benefit from greater information on the technicalities of free trade and the related FTAs through targeted, relevant information campaigns. Issues including, but not limited to, how small businesses are able to prepare and source relevant documentation and how or when tariff reductions are applied during the export process should be “more clearly and consistently communicated to small businesses”.<sup>51</sup>

Businesses often ignore free trade opportunities because there is not a clear understanding about who bears the tariff burden. At the end of the day, tariff costs are paid by the final consumer. It is therefore important to demonstrate that the removal of tariffs will result in cheaper prices and/or greater exports. Council would welcome all efforts to better inform business operators of the free trade landscape and how they can participate.<sup>52</sup>

- 4.28 The Chief Executive Officer of the Global Trade Professionals Alliance, Ms Lisa McAuley, believes most SMEs would welcome sound business advice from recognised and credible advisers on trade issues.<sup>53</sup>

First is building the knowledge of service providers to provide the right support to businesses, because most small to medium enterprises are time poor with limited resources and they are often focused on driving and running the business, so they rely on third-party advice. It is imperative that those providers of that advice—the service providers in international trade—have the right technical knowledge and skills necessary to be able to offer accurate and practical assistance to exporters. This could assist with furthering the educational outreach and the right support to MSMEs. This is particularly important to support their utilisation of FTAs, as it often requires very technical knowledge—including understanding how to correctly classify their products, understanding Certificates of Origin, country specific information of how and when to talk to the right freight forwarder/customs broker about free trade agreements, and how to take advantage of these.<sup>54</sup>

- 4.29 Ms McAuley highlights in the case of utilising an FTA, most of the time it is about the importer or the buyer being aware of the benefits that they can receive.<sup>55</sup>

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<sup>51</sup> Sunshine Coast Council, *Submission 9*, p. 1.

<sup>52</sup> Sunshine Coast Council, *Submission 9*, p. 1.

<sup>53</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, p. 13.

<sup>54</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, p. 13.

<sup>55</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, p. 13.

...a lot of the education of small to medium enterprises has missed the fact of how to educate them in terms of promoting the benefits to their potential buyer or importer.<sup>56</sup>

- 4.30 The Ai Group's Ms McGrath outlined some the cultural challenges of doing business in different parts of Asia that SMEs need to understand and adapt to.<sup>57</sup>

So what works in the Australian market doesn't necessarily work more broadly. I find—again, this is anecdotal—that family owned businesses are more successful in Asia than companies with boards, because family owned companies are taking a risk on themselves and so are more likely to back themselves. Also, when they find a partnership with shared values with another family owned business in Asia, it's far more successful. You can't work in Asia if you're just making assessments based on bank risk assessments and numbers. It's people-to-people contacts.<sup>58</sup>

- 4.31 The Manager of a trading company based in Hong Kong that imports Australian food, Luckypole Limited, Mr Brian Mallyon, submitted that FTA's do "reduce barriers to entry, but are by no means the only way, and in many cases are not even the most important way for small/medium business to enter foreign markets".<sup>59</sup>

Often it requires a combination of not only (or necessarily) financial provisions, but access to knowledgeable and experienced operators who can navigate the various local requirements, from laws and regulations, to developing relationships with the right people.<sup>60</sup>

- 4.32 The Export Council of Australia outlined while FTAs are just one aspect of doing business internationally, helping businesses and particularly SMEs understand how to utilise them is important.<sup>61</sup>

For too long the government demonstrated a 'set and forget' mentality towards FTAs. Once an FTA came into force, there was very little follow-up to

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<sup>56</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, p. 13.

<sup>57</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 5.

<sup>58</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 5.

<sup>59</sup> Luckypole Ltd, *Submission 10*, p. 6.

<sup>60</sup> Luckypole Ltd, *Submission 10*, p. 6.

<sup>61</sup> Export Council of Australia, *Submission 24*, p. 4.

help SMEs understand how to use them. FTAs are complex legal documents, which are virtually impenetrable to SMEs.<sup>62</sup>

- 4.33 The ECA claimed it has long campaigned for the Government to increase the support it provided SMEs to help them to better utilise FTAs.<sup>63</sup>

We applaud the government's focus over the last few years on increasing utilisation including through the FTA seminars and the excellent FTA Portal.<sup>64</sup>

- 4.34 In May 2018, the Australian Dental Industry Association (ADIA) outlined the results of a survey of SMEs in the dental industry with respect to their views of the impacts of FTAs on their businesses. Twenty-Four SMEs responded to the ADIA survey which canvassed both importers and exporters.<sup>65</sup>

- 4.35 The ADIA survey found that 20 per cent of respondents were confident about their knowledge of the scope and benefits of Australia's FTAs. Conversely, half were only somewhat aware, while 30 per cent were completely unaware.<sup>66</sup>

The survey results demonstrate that there is scope for the Australian Government to improve SME's understanding of the benefits of FTAs.<sup>67</sup>

- 4.36 With respect to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that was signed in March 2018 by the Australian Government, ADIA's survey found 35 per cent of respondents expected to benefit from the agreement that came into force on 30 December 2018.<sup>68</sup>

The most important feature of FTAs to SMEs in the dental industry was the removal of technical barriers to trade, with almost 90 per cent of respondents valuing harmonisation with different product regulations between countries. Similarly, 85 per cent found the removal of technical barriers to trade very important.<sup>69</sup>

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<sup>62</sup> Export Council of Australia, *Submission 24*, p. 4.

<sup>63</sup> Export Council of Australia, *Submission 24*, pp. 4-5.

<sup>64</sup> Export Council of Australia, *Submission 24*, p. 5.

<sup>65</sup> Australian Dental Industry Association, *Submission 29*, p. 4.

<sup>66</sup> Australian Dental Industry Association, *Submission 29*, p. 4.

<sup>67</sup> Australian Dental Industry Association, *Submission 29*, p. 4.

<sup>68</sup> Australian Dental Industry Association, *Submission 29*, p. 4.

<sup>69</sup> Australian Dental Industry Association, *Submission 29*, p. 4.

- 4.37 Taken as a whole, the survey results according to ADIA suggest that while SMEs in the dental industry “value FTAs and their benefits on a conceptual level, the majority do not understand the specific content of Australia’s FTAs and how to leverage their benefits”.<sup>70</sup>
- 4.38 Australian Industry Defence Network Victoria believed its Defence SMEs tend to be unaware of the applicability of FTAs to their business, and largely view FTAs as trade vehicles which apply to much larger businesses such as industry primes and multinationals.<sup>71</sup>
- 4.39 The Network asked what resources is the Australian Government intending to devote to assisting the SME community in “understanding, in layman’s terms, the benefits and possible detriments of participating in FTAs and specifically, how this positively or negatively applies to the SME community”.<sup>72</sup>
- 4.40 The Defence Teaming Centre’s SME members viewed FTAs were not aimed at SMEs.<sup>73</sup>

In order to change this misconception, Government might like to consider allocating additional resources to assist the SME community to understand the benefits and challenges of participating in FTAs.<sup>74</sup>

## More effectively measuring SMEs utilisation of FTAs

- 4.41 Trade consultants KPMG submitted measuring the utilisation of FTAs by Australian exporters is challenging because it remains unclear what it is the Australian government should be measuring to form an accurate view of utilisation and utility.<sup>75</sup>
- 4.42 KPMG outlined how complex the task was monitoring the use of FTAs with over 400 regional trade agreements currently recorded by the World Trade Organization, and recently more than 100 have been registered since 2012.

It is not surprising that the effectiveness of FTAs in achieving negotiated positions and the utilisation of FTAs by Australian traders has been

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<sup>70</sup> Australian Dental Industry Association, *Submission 29*, p. 4.

<sup>71</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 2.

<sup>72</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 2.

<sup>73</sup> Defence Teaming Centre, *Submission 27*, p. 2.

<sup>74</sup> Defence Teaming Centre, *Submission 27*, p. 2.

<sup>75</sup> KPMG, *Submission 4*, p. 11.

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scrutinised from various perspectives and makes for a reasonably dense and colourful patchwork.<sup>76</sup>

- 4.43 While KPMG regarded survey instruments as useful diagnostic tools, it feared surveys are also limited by the size of their distribution groups, user uptake and subsequent sample set, methodology and differing levels of understanding and potential user error. KPMG also believed a greater outsourcing by SME level traders of trade compliance functions to customs brokers for example could distort levels of understanding of the benefits of FTAs.<sup>77</sup>

What is currently missing from our approach to FTA usage for export trade is the availability of mechanisms at the border to collect, aggregate and analyse data regarding Australian exports at the transactional level, including the identification of FTA documentation.<sup>78</sup>

- 4.44 Dr Abrie Swanepoel, Manager, Insights and Evaluation Branch at the Department of Industry, Innovation and Science admitted there was still a lot that the Government does not know about exporting behaviour: the superstars, in terms of exporters, and so on, and the barriers to exporting.<sup>79</sup>

So I would say that there is still a way to go in terms of rich, firm-level data on exports—at the firm level—that can help us to generate results and that would provide insights that can feed into policy.<sup>80</sup>

- 4.45 Dr Swanepoel said there are already initiatives like the Data Integration Partnership for Australia and a lot of Customs data that's not integrated into other ABS data, like taxation data or survey data.<sup>81</sup>

- 4.46 Dr Anthea Bill, Lead Economist, Hunter Research Foundation Centre, The University of Newcastle conceded it's a "real challenge in regional Australia, getting good data" about businesses, export and FTA usage.<sup>82</sup>

It's become more and more challenging for us as an organisation to fund that primary data collection. But that's what we've done. For instance, in relation to

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<sup>76</sup> KPMG, *Submission 4*, p. 12.

<sup>77</sup> KPMG, *Submission 4*, p. 12.

<sup>78</sup> KPMG, *Submission 4*, p. 12.

<sup>79</sup> Dr Abrie Swanepoel, *Committee Hansard*, 20 August 2018, p. 9.

<sup>80</sup> Dr Abrie Swanepoel, *Committee Hansard*, 20 August 2018, p. 9.

<sup>81</sup> Dr Abrie Swanepoel, *Committee Hansard*, 20 August 2018, p. 9.

<sup>82</sup> Dr Anthea Bill, *Committee Hansard*, 1 August 2018, p. 4.



advanced manufacturing, we spoke to 54 Hunter manufacturers several years ago. We did in-depth interviews with those manufacturers, talking to them about the challenges around the changes in the sector, business models that they were operating, staffing, their exposure to global markets and a whole manner of things.<sup>83</sup>

In terms of publicly available data, we're relying on the Labour Force Survey. This doesn't drill down into business size or things like the ATO data around small business creation, which is available annually. We haven't used it extensively in the past but we're starting to use it now. But it doesn't have a lot of detail around things like free trade agreements. So if we were wanting to do a dedicated piece of work on free trade agreements we would be looking to source funding, to do that research, within the region and it would be a primary data collection exercise.<sup>84</sup>

- 4.47 Professor Will Rifkin, Director and Chair in Applied Regional Economics, Hunter Research Foundation Centre, The University of Newcastle, admitted an obvious challenge in collecting better data is an unwillingness to discuss how profits are generated.<sup>85</sup>

One of the challenges is it's very un-Australian to talk about financial success. And as a small business it's your job to hide your profits from the tax man. So even digging into the box of small businesses it'll be very hard to tell what the profits are that are being generated by specific free trade agreements.<sup>86</sup>

- 4.48 COSBOSA submitted it wants the Government invest time in further consulting specific SMEs which are currently exporting using FTAs, to "learn what is working and what is not".<sup>87</sup>

We also believe the government should specifically consult SMES that have struggled to engage with FTAs, or found complexity a barrier.<sup>88</sup>

- 4.49 Mr Evan Holley, Director, Deregulation and Small Business Branch, Small Business and Economic Strategy Group, Department of Jobs and Small

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<sup>83</sup> Dr Anthea Bill, *Committee Hansard*, 1 August 2018, p. 4.

<sup>84</sup> Dr Anthea Bill, *Committee Hansard*, 1 August 2018, p. 5.

<sup>85</sup> Professor Will Rifkin, *Committee Hansard*, 1 August 2018, p. 5.

<sup>86</sup> Professor Will Rifkin, *Committee Hansard*, 1 August 2018, p. 5.

<sup>87</sup> Council of Small Business Organisations of Australia, *Submission 26*, p. 1.

<sup>88</sup> Council of Small Business Organisations of Australia, *Submission 26*, p. 1.

Business admitted Governments don't know a lot about the business dynamics at the firm level.<sup>89</sup>

That might be something in the future that could shed some light on when a successful, very small business, takes that step, and on what the business dynamics are around making that sort of investment. But, having said that, a strong economy and a good, rules-based and easy-to-access trading environment where any barriers to entry are lowered will always encourage more smaller companies to look at the opportunity.<sup>90</sup>

- 4.50 Ms Rose Verspaandonk, Branch Manager, Deregulation and Small Business Branch, Small Business and Economic Strategy Group, Department of Jobs and Small Business believes a greater understanding of business dynamics would be very useful for targeting any government action.

...the main thing is getting the fundamentals right so that small businesses can just thrive and then set their sights a bit more ambitiously.<sup>91</sup>

- 4.51 In evaluating an FTA, economist Associate Professor Mark Melatos submitted that a careful and explicit accounting must be undertaken not just of the benefits of enhanced market access, but also of the costs (especially for SMEs) of complying with associated Rules of Origin.<sup>92</sup>

- 4.52 Associate Professor Melatos believed the fundamental aim of any FTA should be to make trade less costly for domestic firms – exporters and importers – to do business with customers and suppliers overseas:<sup>93</sup>

- This means that FTA design must be led by the needs of domestic firms.
- Given their comparative lack of resources, it is important to integrate SME concerns directly into FTA negotiations.

- 4.53 Associate Professor Melatos found FTA negotiations too often over-emphasise market access 'paper' gains for exporters at the expense of demonstrating real reductions in the costs associated with exporting:<sup>94</sup>

- The price of preferential treatment and enhanced market access in an FTA is costly Rules of Origin (RoO).

<sup>89</sup> Mr Evan Holley, *Committee Hansard*, 20 August 2018, p. 9.

<sup>90</sup> Mr Evan Holley, *Committee Hansard*, 20 August 2018, p. 9.

<sup>91</sup> Ms Rose Verspaandonk, *Committee Hansard*, 20 August 2018, p. 9.

<sup>92</sup> Associate Professor Mark Melatos, *Submission 5*, p. 1.

<sup>93</sup> Associate Professor Mark Melatos, *Submission 5*, p. 1.

<sup>94</sup> Associate Professor Mark Melatos, *Submission 5*, p. 2.

- Ultimately, it is the net benefit (or cost) of enhanced market access that will determine whether or not firms can exploit any market access gains that have been negotiated.
- Net benefit of market access gains after measuring the cost of adhering to associated Rules of Origin.

4.54 Associate Professor Melatos gave an example:

...while a trade partner may agree to levy preferential tariff rates on imports of a particular product or service (i.e. a gain in market access), the RoO required to access these preferences may impose prohibitive costs on the exporter. As such, the cost of exporting may actually rise under the FTA leading exporters to prefer trade on an MFN basis outside the FTA.<sup>95</sup>

4.55 To better gauge the worth of FTAs to different exporters of all sizes, Associate Professor Melatos recommended Government adopt a broader, more meaningful, definition of FTA “utilisation” should be adopted.<sup>96</sup>

- The utilisation (i.e. accessibility) of an FTA is usually measured as the proportion of trade using the associated preferences defined by the agreement.<sup>97</sup>
- This measure is inadequate as it fails to account for the potentially different impact of the agreement on different types of firms. In particular, the standard definition of utilisation fails to distinguish between:<sup>98</sup>
  - Changes at the intensive margin: Are existing exporters (importers) exporting (importing) more or less ex post? and
  - Changes at the extensive margin: Are firms exporting (importing) ex post the formation of the FTA that were not exporting (importing) ex ante? and
  - “Latent” utilisation: Are there firms (most likely SMEs) that choose not to trade at all within the FTA area but which might with an appropriately designed FTA?

4.56 To improve understanding of the utilisation of FTAs, Associate Professor Melatos wants Chambers of Commerce and other issuers of Certificates of

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<sup>95</sup> Associate Professor Mark Melatos, *Submission 5*, p. 2.

<sup>96</sup> Associate Professor Mark Melatos, *Supplementary submission 5.1*, p. 2.

<sup>97</sup> Associate Professor Mark Melatos, *Supplementary submission 5.1*, p. 2.

<sup>98</sup> Associate Professor Mark Melatos, *Supplementary submission 5.1*, p. 2.

Origin to be required to maintain a centralised database which records the details of each consignment for which a CoO has been obtained.

Access to Certificates of Origin data would allow researchers and policymakers to identify individual firms that choose to start (and stop) accessing FTA trade preferences. It would then be possible to find out why they have done so and, in this way, identify and address possible FTA design concerns; e.g. with Rules of Origin.<sup>99</sup>

4.57 The Australian Chamber of Commerce and Industry conducted its own study in 2018 and submitted its findings largely confirm previous responses, that in a broad sense “business doesn’t understand our trade agreements and their impact on individual businesses is low”.<sup>100</sup>

4.58 The ACCI queried a PwC report into utilisation of trade agreements commissioned by DFAT because the study drew upon figures from foreign governments related to preferential entry.<sup>101</sup>

It is important that the inquiry understands that such figures reflect the understanding of importers about seeking lower taxes and who have compliance liability in the country of import, rather than the knowledge and active participation of the producers in the country of origin... The DFAT / PwC study doesn’t include any economic analysis of the impacts of the trade agreement.<sup>102</sup>

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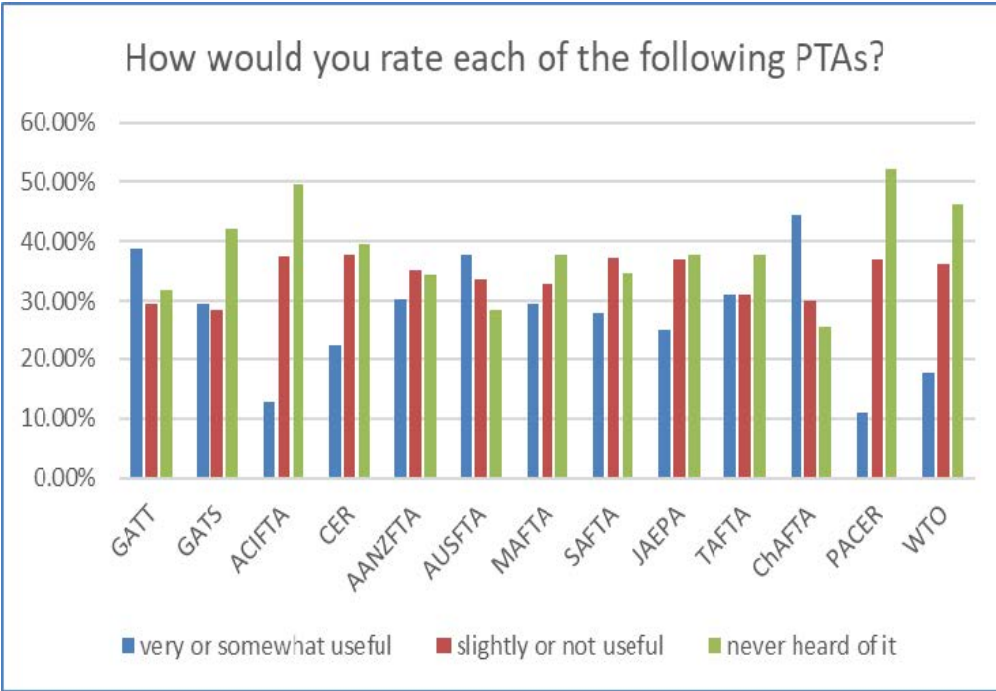
<sup>99</sup> Associate Professor Mark Melatos, *Supplementary submission 5.1*, p. 2.

<sup>100</sup> Australian Chamber of Commerce and Industry, *Submission 28*, pp. 10-11.

<sup>101</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 12.

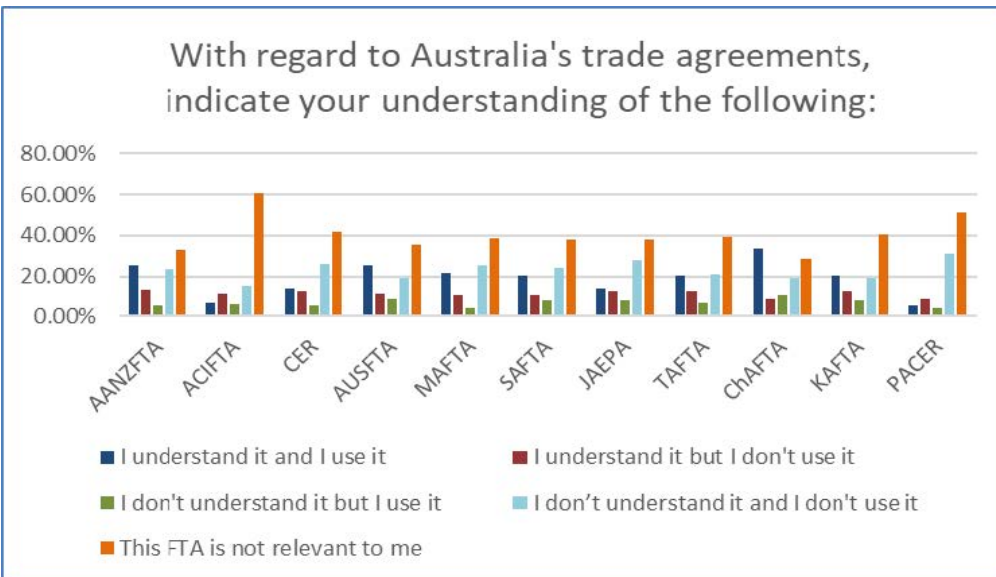
<sup>102</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 12.

**Figure 4.2 Businesses rate the impact of Preferential Trade Agreements.**



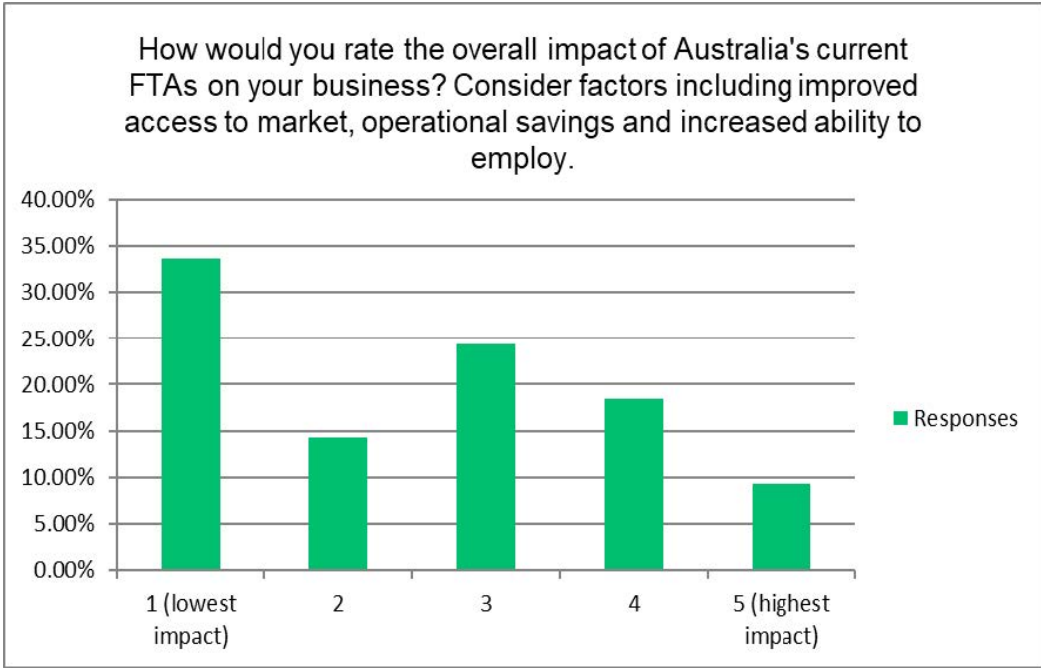
Source: Australian Chamber of Commerce & Industry, Submission 28, ACCI 2018 study of FTA awareness.

**Figure 4.3 Business understanding of FTAs.**



Source: Australian Chamber of Commerce & Industry, Submission 28, ACCI 2018 study of FTA awareness.

**Figure 4.4    Businesses rate the overall impact of FTAs.**



Source: Australian Chamber of Commerce & Industry, Submission 28, ACCI 2018 study of FTA awareness.

4.59 The Victorian Government submitted that a recent business survey it conducts on barriers to export growth suggests that understanding FTAs ranks as a relatively minor issue for 100 SME high growth exporters, with 80 per cent of firms reporting that 'understanding FTAs' is either only a minor issue or not an issue at all.<sup>103</sup>

This may indicate that firms already understand and/or utilise FTAs, or that firms have decided not to use an FTA because the costs are greater than any benefits for their business. Clearly, much more needs to be understood about which small businesses are using FTAs, in which markets and for what benefit and cost.<sup>104</sup>

4.60 The Victorian Government believes there is a need for more comprehensive data about utilisation of FTAs by firm size, sector, market and location of business.<sup>105</sup>

<sup>103</sup> Victorian Government, Submission 35, p. 7.

<sup>104</sup> Victorian Government, Submission 35, p. 7.

<sup>105</sup> Victorian Government, Submission 35, p. 1.

At present, there is very little evidence based understanding of which firms are utilising FTAs in specific markets and to what extent. Much more evidence is needed on the impact of FTAs, including which firms are using and benefitting from FTAs, to inform promotional efforts, future FTA negotiations and a comprehensive evaluation of agreements already in force.<sup>106</sup>

- 4.61 The Acting Deputy Secretary of Trade Victoria, Ms Ylva Carosone, believes state governments have a role in gathering feedback from SMEs and also promoting the benefits of FTAs.<sup>107</sup>

...better data and evidence to inform policy—I think that's critical—but tying that together to leverage all of those partners that can play a role in implementing the benefits of FTAs. DFAT has a fantastic FTA portal, but working with industry associations and actually having a sector-based approach to the benefits of FTAs and using those different partners to deliver that messaging through to SMEs is a practical outcome that would be greatly assisted, and Austrade and DFAT both have a role in that, with state governments.<sup>108</sup>

- 4.62 Ms Nicole Andrews, Trade Victoria's Regional Specialist, North East Asia, believes governments need more information on which businesses and SMEs are utilising FTAs.<sup>109</sup>

...there needs to be better understanding of who is actually using the FTAs to better inform how and who we help.<sup>110</sup>

- 4.63 Dr David Treisman from the Monash Business School, Monash University, supports gathering data from SMEs about their FTA experiences.<sup>111</sup>

It would also be adding to the point about the collection of data but very much asking the correct question. Instead of just looking at utilisation in terms of quantity of law, we'd recommend that they would actually question it in terms of productivity and profitability of underlying small and medium enterprises.<sup>112</sup>

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<sup>106</sup> Victorian Government, *Submission 35*, pp. 1-2.

<sup>107</sup> Ms Ylva Carosone, *Committee Hansard*, 30 July 2018, p. 30.

<sup>108</sup> Ms Ylva Carosone, *Committee Hansard*, 30 July 2018, p. 30.

<sup>109</sup> Ms Nicole Andrews, *Committee Hansard*, 30 July 2018, p. 18.

<sup>110</sup> Ms Nicole Andrews, *Committee Hansard*, 30 July 2018, p. 18.

<sup>111</sup> Dr David Treisman, *Committee Hansard*, 30 July 2018, p. 31.

<sup>112</sup> Dr David Treisman, *Committee Hansard*, 30 July 2018, p. 31.

- 4.64 The Export Council of Australia submitted that FTA utilisation rates are difficult to measure, particularly if looking just at SMEs.<sup>113</sup>

Customs data (where available) indicate overall utilisation rates for goods exports are high. But these data are based on the number of consignments, and given a small number of very large companies dominate Australia's exports, the data do not infer high utilisation by SMEs. The Australia's International Business Survey, Australia's largest survey of SME exporters, indicates SMEs do not understand FTAs well.<sup>114</sup>

- 4.65 Many studies have been done into FTA utilisation, according to the ECA, and it believes each yields a different answer. In February 2018, PwC released a study on FTA utilisation using international data sources to determine FTA utilisation rates in 2016 for FTAs with China (83 per cent utilisation), Japan (95 per cent), Republic of Korea (Korea, 80 per cent) and the United States (US, 88 per cent).<sup>115</sup>

- 4.66 This ECA understands this was calculated by taking the number of consignments imported into that country under an FTA tariff. This number was divided by the overall number of consignments imported into that country from Australia minus the number of consignments that went into the country under a zero tariff or other mechanisms for tariff relief.<sup>116</sup>

- 4.67 However the ECA believes those PwC findings are contradicted by the 2017 Australia's International Business Survey (AIBS), a survey of 941 internationally active businesses. The AIBS was published by the University of Technology Sydney and commissioned by the ECA with support from Austrade and the Export Finance and Insurance Corporation.<sup>117</sup>

- 4.68 The survey found a relatively low proportion of respondents saw benefits from FTAs, according to the ECA: 40 per cent for China, 22 per cent for Japan, 32 per cent for South Korea and 20 per cent for the US. It also found that a large proportion of goods exporters did not provide the documentation necessary to utilise FTAs: 55 per cent for China, 71 per cent for Japan, 60 per cent for Korea and 72 per cent for the US.<sup>118</sup>

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<sup>113</sup> Export Council of Australia, *Submission 24*, p. 1.

<sup>114</sup> Export Council of Australia, *Submission 24*, p. 1.

<sup>115</sup> Export Council of Australia, *Submission 24*, p. 5.

<sup>116</sup> Export Council of Australia, *Submission 24*, p. 5.

<sup>117</sup> Export Council of Australia, *Submission 24*, p. 5.

<sup>118</sup> Export Council of Australia, *Submission 24*, p. 5.



- 4.69 The ECA noted a difference between the studies was the respondents for the ABIS, 88 per cent were SMEs, while the PwC's was based on all consignments.<sup>119</sup>

In 2015-16, Australian businesses with total exports over \$100 million accounted for 82 per cent of goods export transactions, and it is highly likely a large proportion of the consignments utilising FTAs were exports by large businesses. In addition, smaller businesses are likely to use the services of a consolidator, which could mean multiple exporters per consignment. Where this occurs, what is counted in the utilisation figures as one consignment will be counted in the AIBS as many exporters.<sup>120</sup>

- 4.70 The ACCI, as an advocate for free trade, believes the rationale for trade agreements is to generate net economic benefits and an increase in aggregate trade flows between countries. But the ACCI warned objective economic analysis, independent of the negotiating parties, "needs to be conducted to provide confidence to both the Parliament and the public that the range of agreement in place and being pursued, is of benefit to the Australian economy".<sup>121</sup>

The private sector, the main provider of jobs, creator of jobs and payer of taxes in Australia, wants to be assured that taxpayers' monies are spent wisely in the pursuit of trade agreements.<sup>122</sup>

## **PwC study of the utilisation of FTAs by SMEs**

- 4.71 In 2017, DFAT commissioned PricewaterhouseCoopers Australia (PwC) to undertake a comprehensive, independent analysis of FTA utilisation. DFAT believed the study confirmed high rates of utilisation and awareness of FTAs, and it was not surprised by the finding that SMEs lag behind larger enterprises in their awareness of and utilisation of FTAs.<sup>123</sup>

Government agencies are well aware SMEs are at a resource and capability disadvantage vis-a-vis large enterprises, which may affect their ability to understand and utilise FTAs. This is why we have initiated programs to increase awareness of and understanding of FTAs, specifically targeting SMEs.

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<sup>119</sup> Export Council of Australia, *Submission 24*, p. 5.

<sup>120</sup> Export Council of Australia, *Submission 24*, p. 5.

<sup>121</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 9.

<sup>122</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 9.

<sup>123</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

As mentioned elsewhere in this paper, business feedback on the FTA roadshows, FTA Portal and other initiatives has been very positive.<sup>124</sup>

- 4.72 DFAT stated these programs are making a positive contribution to SME awareness of and utilisation of Australia's FTAs.<sup>125</sup>
- 4.73 The Victorian Government welcomed the PwC FTA Utilisation Study, which surveyed 530 businesses in Australia, stating it made a contribution to the shared understanding of utilisation of the North Asian FTAs.<sup>126</sup>
- The inclusion of services firms in the survey cohort is especially welcomed, as this sector includes a significant number of high value SMEs which have not always been included in past studies.<sup>127</sup>
- 4.74 The Victorian Government agreed the results of the PwC work and other studies are suggesting the utilisation rates among eligible firms are moderate to high, as is awareness of FTAs in the business community, and that the North Asian FTAs contribute positively to business confidence and business activity.<sup>128</sup>
- 4.75 The independent PwC research, commissioned by DFAT, looked into business utilisation of Australia's FTAs and the wider impact of FTAs on Australian business activity. The study covered all of Australia's existing FTAs, with an emphasis on those with China, Japan and Korea.<sup>129</sup>
- The study found high overall awareness of FTAs among the Australian business community, and high utilisation of preferential tariff rates under Australia's North Asia FTAs. The report found Australian businesses view FTAs favourably, and FTAs are influencing business activity, confidence and expansion planning. FTAs also provide greater regulatory certainty for Australian service providers and investors in partner markets, according to the report.<sup>130</sup>
- 4.76 The report found 95 per cent (by value) of Australia's eligible goods exports to Japan entered under a Japan-Australia Economic Partnership Agreement

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<sup>124</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

<sup>125</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

<sup>126</sup> Victorian Government, *Submission 35*, p. 6.

<sup>127</sup> Victorian Government, *Submission 35*, p. 6.

<sup>128</sup> Victorian Government, *Submission 35*, p. 6.

<sup>129</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

<sup>130</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

(JAEPA) preference. The FTA preference utilisation rate was 85 per cent for Australia's exports to China, and over 80 per cent for Australia's exports to Korea.<sup>131</sup>

In terms of individual businesses, the report found 62 per cent of surveyed Australian exporters use FTAs. It also found SMEs lag behind larger enterprises in using FTAs, with 55 per cent of exporting SMEs using FTAs, compared to 77 per cent for large enterprises.<sup>132</sup>

- 4.77 PwC's report also found "understandably, appreciation of the detailed requirements of FTAs...varies among businesses, especially at the SME level".<sup>133</sup>
- 4.78 According to DFAT, the PwC report cited DFAT's FTA Portal and Austrade programs as significant aids assisting businesses to understand FTAs, and highlighted further education and advocacy, particularly for SMEs, among ways to optimise business utilisation of FTAs. The report also highlighted the important shared role of trade intermediaries, industry associations and business groups, along with Australian Government agencies, in assisting businesses to understand and utilise Australia's FTAs.<sup>134</sup>
- 4.79 PwC's report also identified other options to optimise utilisation of FTAs, including streamlining origin documentation, reducing compliance costs, digitising forms, improving understanding of services and investment commitments in FTAs, and using existing review mechanisms in FTAs to enhance and align their benefits.<sup>135</sup>
- 4.80 DFAT provided some technical explanations as to why the use of FTAs may differ between SMEs and larger enterprises, including trade liberalisation resulting in a large proportion of international trade enjoying zero duties under Most Favoured Nation (MFN) arrangements. Many exporters, including SMEs, do not use FTAs if their product(s) are already entering export markets duty free.<sup>136</sup>

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<sup>131</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

<sup>132</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

<sup>133</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

<sup>134</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

<sup>135</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 7.

<sup>136</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 8.

4.81 DFAT highlighted the higher documentation costs faced by SMEs when exporting.

Transport, and administrative costs associated with origin certification and export documentation, may represent a greater proportion of smaller, lower value shipments for some FTA markets.<sup>137</sup>

4.82 DFAT also outlined other deterrents for SMEs to pursuing export markets, such as:<sup>138</sup>

- Competitiveness and lack of economies of scale may prevent export growth; and
- Lack of capacity to navigate customs, quarantine and other regulatory processes in other countries.

4.83 The study also included consideration of the indirect benefits of FTAs, which the Victorian Government believed supported feedback from its departmental client managers that there may be a "door opening" effect and a reputational benefit to having an FTA with another country.<sup>139</sup>

These benefits can be particularly important to SMEs seeking to enter highly competitive international markets such as China.<sup>140</sup>

## FTAs are complex evolving instruments

4.84 Trade consultants KPMG submitted that Australia's recent North Asian FTAs and the CPTPP are "illustrative of the scale and complexity associated with negotiating principles of economic integration".<sup>141</sup>

The agreements are written in a very detailed, legal style and are accompanied by volumes of technically complex schedules. They require teams of negotiators, policy makers and lawyers to develop over many years. It can sometimes feel like a similar concentration of effort is required to dissect, digest and interpret the practical implications of FTAs for particular industries and particular supply chains.<sup>142</sup>

<sup>137</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 8.

<sup>138</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 8.

<sup>139</sup> Victorian Government, *Submission 35*, p. 6.

<sup>140</sup> Victorian Government, *Submission 35*, p. 6.

<sup>141</sup> KPMG, *Submission 4*, p. 8.

<sup>142</sup> KPMG, *Submission 4*, p. 8.

- 4.85 KPMG pointed out that FTAs are not static documents as the agreements are designed to mature and change as particular negotiated benefits enter force and as a result of ongoing dialogue between parties.<sup>143</sup>
- 4.86 The Export Council of Australia (ECA) observed that SMEs have too many reasons to put FTAs in the ‘too hard basket’ and not use them. ECA suggested there are several things the Government can do to enable more SMEs to use FTAs.<sup>144</sup>
- [Government] has done a good job in raising awareness of specific FTAs, but it does not have the resources or expertise to give SMEs the next layer of information to make the most out of FTAs. SMEs simply do not understand many fundamentals of using FTAs, such as how to assess their goods against Rules of Origin or what process to go through to realise access to service markets opened by FTAs.<sup>145</sup>
- 4.87 ECA pointed out that FTAs also contain many trade facilitating provisions that SMEs simply are not aware of, such as Certificates of Origin that cover long time periods, advance rulings or dispute resolution mechanisms.<sup>146</sup>

## Challenges for SMEs when utilising FTAs for exports

- 4.88 The consultations by departments of Industry, Innovation & Science and of Jobs & Small Business have revealed a number of consistent themes and challenges regarding business experiences with FTAs.<sup>147</sup>

These themes are similar for businesses of all sizes. However, smaller businesses can disproportionately feel this burden because they tend to have fewer resources and expertise (both human and financial) available to overcome the difficulties they face when using FTAs. This is particularly notable considering the overwhelming majority of SMEs are non-employing, or only have 1-4 employees.<sup>148</sup>

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<sup>143</sup> KPMG, *Submission 4*, p. 8.

<sup>144</sup> Export Council of Australia, *Submission 24*, p. 1.

<sup>145</sup> Export Council of Australia, *Submission 24*, pp. 1-2.

<sup>146</sup> Export Council of Australia, *Submission 24*, p. 2.

<sup>147</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, P. 8.

<sup>148</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, P. 8.

- 4.89 Some of the most common challenges identified by SMEs according to DIIS and DJSB drawing upon the PwC study and Export Council of Australia's recommendations with regard to using FTAs include:<sup>149</sup>
- a lack of awareness or information about the opportunities available under FTAs;
  - navigating the complexity and length of FTA documents;
  - interpreting and understanding how to use FTAs, including technical requirements such as product-specific Rules of Origin and tariff codes;
  - the cost of understanding and complying with foreign and domestic regulations, and the general operating environment in international markets; and
  - dealing with different rules among overlapping bilateral, regional and multilateral agreements.<sup>150</sup>
- 4.90 The Victorian Government acknowledged the challenges faced in promoting FTA use by SMEs, including that firms may be time and resource poor and potentially not trading the goods or services for which FTAs deliver the greatest benefits.<sup>151</sup>
- 4.91 The Managing Director of Natural Pharmaceuticals Australia Pty Ltd, Mr Jack Sun, recalled he required plenty of support from the Queensland chamber of commerce when trying to export to Malaysia back in the late 1990s. Mr Sun had a lot of meetings with the Queensland chamber of commerce seeking assistance because a lot of export documents were required and all needed to be stamped.<sup>152</sup>
- So for small and medium companies we very much need information being given. A lot of people go knocking on door, asking the wrong people and wasting months. I've been through that and finally we found the right ones. We're still having trouble trying to get stamps. Some countries require documents, but we will find a way...because we would need to export our products. The market is a lot bigger outside Australia.<sup>153</sup>
- 4.92 In trade consultants KPMG's experience, most SMEs that are currently exporting or are exploring potential export markets are aware of Australia's

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<sup>149</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, P. 8.

<sup>150</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, P. 8.

<sup>151</sup> Victorian Government, *Submission 35*, p. 1.

<sup>152</sup> Mr Jack Sun, *Committee Hansard*, 23 July 2018, pp. 21-22.

<sup>153</sup> Mr Jack Sun, *Committee Hansard*, 23 July 2018, pp. 21-22.

FTAs and particularly those with Australia's North Asian trading partners. These businesses generally have a basic understanding that the agreements have negotiated preferential benefits that can differentiate Australian products from goods produced by third countries or by domestic producers.<sup>154</sup>

- 4.93 Based on experience in supporting Victorian businesses on trade related matters, the Victorian Chamber identified the following key challenges for SMEs in establishing and building trade with Australia's leading trading partners.<sup>155</sup>

## Understanding the Rules of Origin

- 4.94 The Victorian Chamber regards the most common barrier for businesses using FTAs is understanding the 'Rules of Origin' (RoO) requirements for their products, and hence proving that they qualify to access the FTA benefits. RoOs are incredibly complex and often differ between trade agreements. Determining whether a product meets RoO requirements can be time consuming, costly and frustrating for business. The complexity of RoO requirements and the barrier they pose to assessing the benefits of trade agreements.<sup>156</sup>
- 4.95 ASBFEO noted the recent Australia's International Business Survey demonstrated that 35 per cent of businesses did not use Certificates of Origin, "primarily because of a lack of understanding of their benefits".<sup>157</sup>
- 4.96 Mr Bryan Clark, Director, Trade and International Affairs, Australian Chamber of Commerce and Industry highlighted the importance of the Certificates of Origin system to the managing of preferential trade agreements.<sup>158</sup>

...origin is one of the most fundamental pieces of international trade, and it's used for trade statistics, sanctions management, antidumping management and preferential treatment management. People don't recognise what has to happen in order for you to comply and how you go through the process for

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<sup>154</sup> KPMG, *Submission 4*, p. 8.

<sup>155</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 3.

<sup>156</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 3.

<sup>157</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 2.

<sup>158</sup> Mr Bryan Clark, *Committee Hansard*, 13 August 2018, p. 9.

that. Understanding that process and making sure we get it the right way round are really important.<sup>159</sup>

## Deciphering which trade agreement suits best

- 4.97 Progress in achieving bilateral and multilateral FTAs (such as the Comprehensive and Progressive Trans-Pacific Partnership agreement) offers businesses many benefits, according to the Victorian Chamber. However, where multiple FTAs apply, deciphering which agreement offers the best conditions for trade can be complex and time consuming for SMEs, especially without clear and accessible information.<sup>160</sup>
- 4.98 The Australian Small Business and Family Enterprise Ombudsman submitted concerns about the confusion for SMEs created by Australia having multiple FTAs for a single market.<sup>161</sup>

For instance, Australia currently has five separate market entry arrangements for Malaysia, three for China and four for Thailand. Gaining full understanding of the relevant arrangements is challenging for SMEs, who have limited resources, capacity and capability.<sup>162</sup>

## Overcoming non-tariff barriers

- 4.99 The Victorian Chamber welcomes the significant progress of FTAs in removing tariffs, making it more cost effective for Victorian exporters to expand into international markets. However, a number of constraints and non-tariff barriers still exist that are preventing many businesses from accessing export opportunities. These trade barriers include:<sup>163</sup>
- Challenges identifying and developing relationships with distributors and customers.
  - Difficulties navigating local languages, cultures, customs and business practices.
  - Costs and uncertainty around the protection of intellectual property.
  - Difficulties complying with local laws and regulation (in particular labour and tax laws).

<sup>159</sup> Mr Bryan Clark, *Committee Hansard*, 13 August 2018, p. 9.

<sup>160</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 3.

<sup>161</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 2.

<sup>162</sup> Australian Small Business and Family Enterprise Ombudsman, *Submission 14*, p. 2.

<sup>163</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 3.



- Restrictions or delays in the repatriation of funds to Australia.
- Resource intensive in-country product testing and validation requirements, some of which may be inconsistent with Australian requirements and practices.

## **Export quotas and SPS measures restrict trade**

4.100 The Victorian Chamber outlined export quotas as well as sanitary and phytosanitary (SPS) measures also pose restrictions on trade, particularly for exports of agri-food products. These measures can significantly limit market access, regardless of whether an FTA is in place.<sup>164</sup>

## **Understanding how to use FTAs**

4.101 KPMG believes that some SMEs also appreciate that benefits do not apply automatically and that they must comply with specific administrative processes to qualify their goods for the preferential treatment enabled by the FTA.<sup>165</sup>

However, based on our experience and observations, many still do not understand how they can use FTAs and a large proportion feel that they don't have a voice in FTA negotiations. As a consequence, they do not see the connection between an FTA and their commercial activities...there is a significant and meaningful difference between understanding and use when it comes to FTAs.<sup>166</sup>

4.102 KPMG believes that two issues are at the heart of inconsistent FTA usage by SMEs:<sup>167</sup>

- The mechanics of FTA utilisation - the administrative processes for claiming preference and the associated transactional cost of FTA use; and
- The recognition of using the FTA as a value driver - many SME exporters lack the capability to understand how negotiated FTA benefits apply to their commercial activities and export goals and how to incorporate this into an effective market engagement strategy, brand proposition and pricing strategy.

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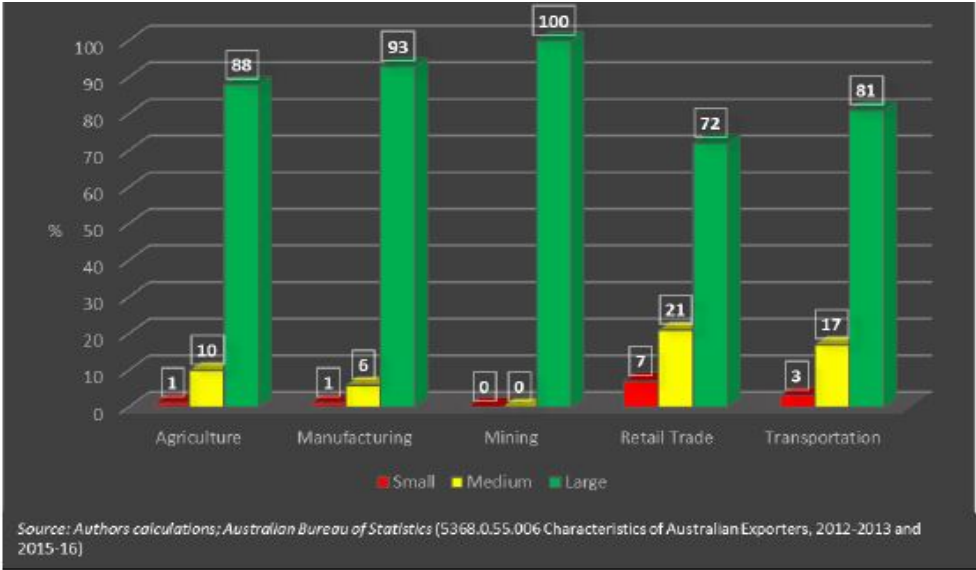
<sup>164</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 3.

<sup>165</sup> KPMG, *Submission 4*, p. 8.

<sup>166</sup> KPMG, *Submission 4*, p. 8.

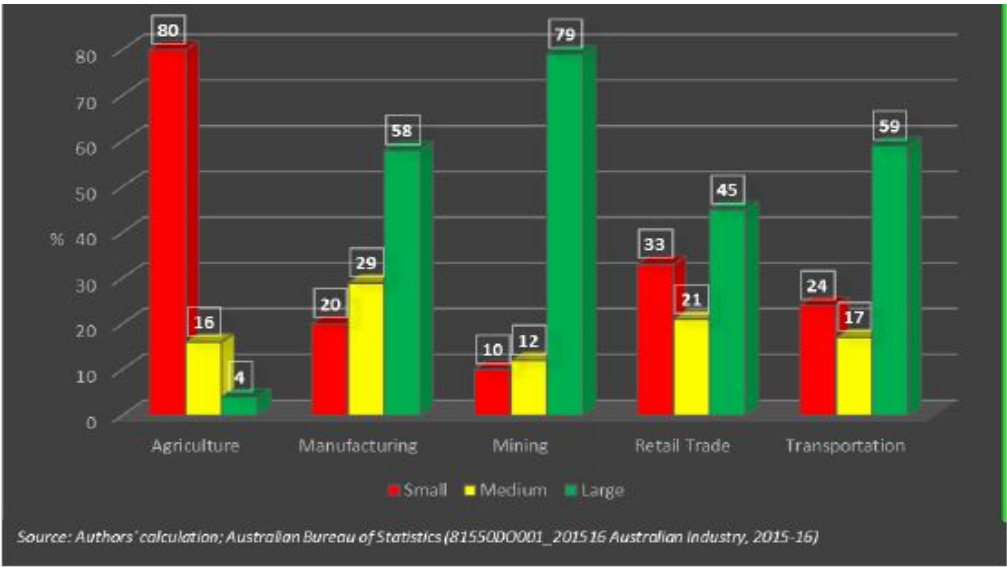
<sup>167</sup> KPMG, *Submission 4*, pp. 8-9.

**Figure 4.5** Australia's average percentage exports by size of business in selected sectors, 2012-2016.



Sources: Dr Di Lieto & Dr Treisman, Submission 7 & ABS Characteristics of Australian Exporters, 2012-13 and 2015-16.

**Figure 4.6** Australia's average percentage industry value, added by size of business in selected selectors, 2012-2016.



Sources: Dr Di Lieto & Dr Treisman, Submission 7 & ABS Characteristics of Australian Exporters, 2012-13 and 2015-16.

- 4.103 The departments of Industry, Innovation & Science and of Jobs & Small Business have observed due to the significant diversity amongst SMEs, including their geographic spread and business models, “broader economic and business management factors can also challenge an SME’s ability to leverage FTAs.”<sup>168</sup>

Cash flow and a lack of time (particularly for sole operators or small operators) can also contribute to limiting the capacities of an SME that might seek to internationalise. The SME may not have the time to develop, or financial capacity to access the broader business management skills and strategies required to manage the process of internationalisation.<sup>169</sup>

- 4.104 Asialink Business highlighted the inherent complexity of FTAs as a deterrent for SMEs.<sup>170</sup>

Within smaller businesses, internal trade and export knowledge and skills are often limited, with many employees and business owners expected to cover a number roles and functions that may be specialised in larger organisations. Even allocating time and resources to attend a short course or FTA seminar can be challenging for small businesses.<sup>171</sup>

- 4.105 According to the DIIS and DJSB submission, the Government undertakes a number of initiatives to create a conducive environment for SMEs to leverage FTAs.<sup>172</sup>

For example, the Australian Trade and Investment Commission (Austrade) is the key Australian Government agency responsible for gathering information and insights about international market opportunities for Australian business. Austrade’s work and gathered intelligence can be an important input for domestic policymakers in creating an optimal business environment for SMEs seeking to take advantage of FTAs.<sup>173</sup>

## **Developing new business strategies for FTA markets**

- 4.106 In the work KPMG does with clients, KPMG submitted that making some clients make adjustments in internal processes and operational behaviours of

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<sup>168</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, P. 8.

<sup>169</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, pp. 8-9.

<sup>170</sup> Asialink Business, *Submission 17*, p. 3.

<sup>171</sup> Asialink Business, *Submission 17*, p. 3.

<sup>172</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 9.

<sup>173</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 9.

their businesses was what is required first to make FTA use part of 'business as usual' activities.<sup>174</sup>

However, this is often not top of mind for the employees responsible for export sales and operations. Additionally, whilst some grants are available to SME exporters to develop their markets, there is a transactional cost associated with documenting the origin of goods and managing FTA compliance.<sup>175</sup>

4.107 KPMG advised any SMEs wanting an effective and sustainable use of FTAs must also make it part of a “holistic export development strategy”.<sup>176</sup>

This is reflected in our work with SME exporters, which is focused on the design and deployment of practical solutions at all phases of the agreed strategy of their go-to-market journey. This includes:<sup>177</sup>

- helping SMEs to refine commercial strategy and assess the commercial viability of export markets;
- optimising supply chain management processes and critically evaluating their readiness to export as well as assisting their engagement with counterparties in export markets;
- advising SMEs on how to stay on top of their international trade compliance responsibilities and manage risk effectively.

4.108 KPMG believes that this type of strategic work with SMEs benefits from support and resources made available by government, and is “most effective and efficient when delivered in conjunction with professional services providers”.<sup>178</sup>

4.109 Chief Executive Officer, Global Trade Professionals Alliance, Ms Lisa McAuley, supports improving the access for businesses to advice on FTAs.<sup>179</sup>

...what we really need to do now is look at getting the right support for businesses to help them navigate free trade agreements, and that is only going to happen if they can access the right third-party advice.<sup>180</sup>

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<sup>174</sup> KPMG, *Submission 4*, p. 9.

<sup>175</sup> KPMG, *Submission 4*, p. 9.

<sup>176</sup> KPMG, *Submission 4*, p. 9.

<sup>177</sup> KPMG, *Submission 4*, p. 9.

<sup>178</sup> KPMG, *Submission 4*, p. 9.

<sup>179</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, pp. 8-9.

<sup>180</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, pp. 8-9.

## FTA seminars and workshops

4.110 Trade consultants KPMG welcomed the availability of a host of workshops, webinars, seminars and one-on-one advice in relation to benefits of Australian FTAs and how to access them provided by a broad range of industry associations and business chambers and educational providers, including the Export Council of Australia, Australian Chamber of Commerce and Industry and Australia China Business Council.<sup>181</sup>

4.111 The Export Council of Australia believed the Government could do more to facilitate educating SMEs about FTAs, including partnering with private sector providers to develop an online training program that was freely available to businesses.<sup>182</sup>

This training program could reinforce the content of the FTA roadshow seminars, as well as providing much more detail on the technical questions about using FTAs.<sup>183</sup>

4.112 Ms Kelly Ralston, the Chief Client Officer at the Australian Trade and Investment Commission said Austrade has some very specific initiatives that have been put in place such as the seminar series across Australia in partnership with DFAT, Efic, and AusIndustry to focus largely around that awareness-raising aspect and the educative aspect of understanding how to take advantage of and utilise free trade agreements.<sup>184</sup>

Since 2015, there've been some 100 seminars run around the country, reaching some 4,000 individuals and companies who've attended those seminars to learn about the opportunities arising from the free trade agreements; to hear from companies that have taken advantage of opportunities in some other countries where there are free trade agreements in place; to learn some of the pitfalls; to talk to each other; and to discuss with experts on how to take those steps even further.<sup>185</sup>

4.113 Austrade stated between March 2015 and August 2018, 76 seminars have been conducted in regional Australia and 32 in metropolitan areas.<sup>186</sup>

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<sup>181</sup> KPMG, *Submission 4*, p. 6.

<sup>182</sup> Export Council of Australia, *Submission 24*, p. 2.

<sup>183</sup> Export Council of Australia, *Submission 24*, p. 2.

<sup>184</sup> Ms Kelly Ralston, *Committee Hansard*, 25 June 2018, p. 3.

<sup>185</sup> Ms Kelly Ralston, *Committee Hansard*, 25 June 2018, p. 3.

<sup>186</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 7.

Attendance has been very strong, as I said, in terms of numbers but also in terms of the feedback from people who've attended those seminars. They have indicated that their awareness and their understanding of how to utilise free trade agreements has increased.<sup>187</sup>

- 4.114 The Australian Small Business and Family Enterprise Ombudsman Ms Kate Carnell believes one of the hardest things to do is communicate to small and medium businesses, because they're all really different.<sup>188</sup>

They're working 70 to 80 hours a week on their businesses. It's very hard to get them to come to an event or a meeting. So, in terms of refocussing information about free trade agreements, Efic and other opportunities that exist, it should be done through mechanisms that small businesses are already engaged with—and that could be their local chamber of commerce, their local business group or whatever—because they're already engaged with those people.<sup>189</sup>

- 4.115 Ms Carnell doubts too many SMEs have the time or motivation to attend Government-run meetings, workshops or seminars on trade issues.

My experience is that small businesses very rarely have time during the day to go to a meeting put together by a government entity. They just don't have time. They're also not really confident that it's going to be of great benefit or relevance to them. So getting information out about free trade agreements, simplifying the mechanism... We have to understand that, if we want SMEs to be part of that, this much paperwork isn't the way to go.<sup>190</sup>

- 4.116 Ms Carnell said ASBFEO shares the communications challenge faced by Austrade, DFAT, Efic and other agencies dealing with SMEs.<sup>191</sup>

It was about how you get information to small businesses. We find that meetings during business hours are useless, because they simply can't get away from their businesses. But there are other methods of interfacing with small businesses. We use social media a lot. But we also use conduits like chambers, business associations and BECs and all those organisations that are on the ground and are interfacing with small business already, every day.<sup>192</sup>

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<sup>187</sup> Ms Kelly Ralston, *Committee Hansard*, 25 June 2018, p. 3.

<sup>188</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 2.

<sup>189</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 2.

<sup>190</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 2.

<sup>191</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 3.

<sup>192</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 3.

- 4.117 Ms Sally Phillips, Manager of the Free Trade Agreement Program, Australian Trade and Investment Commission, said the focus of the seminars has been on North Asia trade partners.<sup>193</sup>

When we're promoting the seminars, to date the seminars have focused on Korea, Japan and China, so that has been our remit through an NPP program. We would speak with our colleagues in the regions and say: 'Who's likely to come? Who should we partner with? How do we promote these seminars?'<sup>194</sup>

- 4.118 Ms Phillips explained the seminars were only one element of raising awareness of FTAs and the seminars will include the export strengths of a regional area.

They are at a macro level. If we look at the people who attend the seminars, about 50 per cent are exporting. About 25 per cent have never exported but are interested. So we are not necessarily going to a very granular level. Our role is to raise awareness, promote the benefits and give them some case studies. But if we knew in Toowoomba, for example, or in Mildura that there are opportunities in the citrus industry for Korea then we would work with Citrus Australia to deliver roundtables or seminars or bring buyers from Korea around that particular sector specifically.<sup>195</sup>

- 4.119 Ms Phillips outlined how Austrade seeks to attract existing or potential exporters to a seminar and uses peak bodies for example to target the right people.<sup>196</sup>

Our TradeStart network would say to us: 'There's interest in Mildura. We've got X number of exporters. We know there are wins.' We would talk to the peak body. We would speak to our overseas network as well. So we collate a lot of data and insights to understand where we best target our programs and how we would get the best number of people to attend. Generally speaking, it has been run through a roundtable or a seminar in addition to our seminar series... We would have a case study speaker or we would have information on peers in their industry who have had wins, and we would demonstrate that there is a supply role and there is a demand role to free trade agreements.<sup>197</sup>

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<sup>193</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 4.

<sup>194</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 4.

<sup>195</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 5.

<sup>196</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 5.

<sup>197</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 5.

4.120 Ms Phillips stressed the importance of outlining the role of importers of Australian goods and services.<sup>198</sup>

So the importers still have to do work on the other side. They're the ones who do the paperwork. Without them submitting the paperwork, there is no FTA win. So our people in market in Korea will be working with the importers. For example, from time to time we've brought importers or buyers to particular regions and had growers in the room to facilitate those discussions.<sup>199</sup>

4.121 Sales and Marketing Director of Griffith exporter Flavourtech, Mr Leon Skaliotis, wants more knowledge about the impact of FTAs on exports so he can more accurately offer price advantages to potential customers seeking to take advantage of an FTA.<sup>200</sup>

We can't control when customers will buy, and we can't control other markets or the markets that we sell to. For me, the things we can control are communication and education. It's certainly something that we try and do with all our customers. In this particular case, there are free trade agreements. I think one of the things that needs to be done for all exporters is: communication of those free trade agreements and what it means to us and how we can use it in our negotiations and our discussions with our customers.<sup>201</sup>

We quite often get asked for discounts. They say, 'I'm buying this much; give me a price,' or: 'What if I buy that much? Give me a price.' Well, if we understand the free trade agreements and what that means to our end customers and how we can use that, we can actually provide these discounts or use these in our negotiation agreements and say: 'If you purchase this year, this is what's happening. If you purchase next year, and if you want to hang on—you can give us a deposit or say that you're coming on and give us the contract—you can have it at the price that you're after.'<sup>202</sup>

4.122 Mr Skaliotis welcomes the Government providing the education that's required by SMEs to improve on exporters' capabilities to negotiate better agreements with the countries that they are going into.<sup>203</sup>

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<sup>198</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 5.

<sup>199</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 5.

<sup>200</sup> Mr Leon Skaliotis, *Committee Hansard*, 31 July 2018, p. 18.

<sup>201</sup> Mr Leon Skaliotis, *Committee Hansard*, 31 July 2018, p. 18.

<sup>202</sup> Mr Leon Skaliotis, *Committee Hansard*, 31 July 2018, p. 18.

<sup>203</sup> Mr Leon Skaliotis, *Committee Hansard*, 31 July 2018, p. 18.



- 4.123 Ms Phillips claimed the seminars also provide opportunities for exporters to discuss possible solutions with experts or business networks for any trade problems or barriers.<sup>204</sup>

There are probably three ways in which we solicit inquiries or find out about problems. When people wish to attend our events, they have the opportunity to register and put in a question or raise an issue, which we then take on board and try to answer through our presentations or through the one-on-one opportunity that we have through the panel. People will come up to us at networking or they will raise their hand. Some people are less likely to put their hand up in a large room but will come and seek one of us in the room to let us know what the issue is or will provide it during the feedback process.<sup>205</sup>

- 4.124 Ms Phillips detailed one of the most common questions Austrade would hear at seminars is in regards to the Certificates of Origin and the paperwork required for export.<sup>206</sup>

Many exporters are aware of FTAs, but some of them believe that it happens automatically and don't understand that there is a paperwork process that has to happen on the supply—the Australian exporter—side but also on the importer demand side of the equation. That's where we have a lot of questions around Rules of Origin, the process and who they go to to get help navigating that technical aspect.<sup>207</sup>

- 4.125 Mr Lachlan Crews, Assistant Secretary—Trade and Investment Advocacy Branch, DFAT, outlined how important the seminars are for small SMEs in regional areas facing agricultural market access issues and needing advice from experts.<sup>208</sup>

Because many of the seminars are held in regional areas and they do have that SME focus—they're designed for companies that don't have an in-house legal team or a government relations area; they are quite small operations that have heard about the FTA and are curious about how to get into it—the other big question that often comes up is this technical market access. If someone says, 'I want to export kangaroo meat to China. There's a tariff cut in the Australia-China FTA for kangaroo, but I'm told that we're not allowed to export kangaroo meat to China at the moment,' that's an outside-the-FTA thing where

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<sup>204</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 5.

<sup>205</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 5.

<sup>206</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, pp. 5-6.

<sup>207</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 6.

<sup>208</sup> Mr Lachlan Crews, *Committee Hansard*, 25 June 2018, p. 6.

the two agriculture ministries of the countries have to agree on a technical market access protocol before any trade in that product is allowed to commence. People will often come to hear about the FTA, but the questions at the end of the seminar are, 'How do I get my blueberries into China?' 'How do I get my crocodile meat into Korea?' or, 'How do I get my rockmelons into Japan?' – whatever the question might be.<sup>209</sup>

4.126 Mr Crews said some queries can be dealt with straight away if DFAT or Austrade is familiar with the agricultural product or otherwise a general answer is provided.<sup>210</sup>

4.127 NORTH Link representing businesses in northern Melbourne stated there were several Austrade road shows regarding the China FTA that were well attended across Melbourne, including one in Melbourne's north.<sup>211</sup>

In essence, most businesses can see the benefits of FTAs and those already exporting were happy as they see it as an opportunity to increase export sales. Businesses not exporting were excited to see the reductions in trade barriers and some looked to progress with exporting.<sup>212</sup>

4.128 The Director of The Gluten Free Food Co. Ms Monica Topliss, admitted to only having a vague idea about free trade agreements and would welcome any opportunities within her hectic schedule to better understand how to utilise FTAs.<sup>213</sup>

But now, as somebody in my position starting off and having consulted with Austrade a few months ago, I was given all the information of who to contact, which bodies and it was actually mind boggling, just the amount of information. Realistically, we are all so time poor. There was never enough time in the day to actually go and investigate all these contacts.<sup>214</sup>

I know if, such a thing were available, it would make a huge difference to be able to go and do some sort of one-week course or something like that, where people in our position starting off can go to and actually take a whole week off work, to set aside that time, to have, if you like, a crash course...but it's a struggle having to rely on other people to pay or other people to do all the

<sup>209</sup> Mr Lachlan Crews, *Committee Hansard*, 25 June 2018, p. 6.

<sup>210</sup> Mr Lachlan Crews, *Committee Hansard*, 25 June 2018, p. 6.

<sup>211</sup> NORTH Link, *Submission 40*, p. 2.

<sup>212</sup> NORTH Link, *Submission 40*, p. 2.

<sup>213</sup> Ms Monica Topliss, *Committee Hansard*, 24 July 2018, p. 20.

<sup>214</sup> Ms Monica Topliss, *Committee Hansard*, 24 July 2018, p. 20.

things that you can't do. If there's some scope somewhere for somebody to make it available, instead of fumbling from the very beginning trying to learn as much as you can or avoid disasters. At least have some form of—I don't know—teaching for people like myself. I'm a chef; I'm not a business person as such.<sup>215</sup>

## Improving resources for regional exporters

- 4.129 Whilst most exports come from regional areas, there are less support structures for exporters in regional areas than in city areas, according to the Sunshine Coast Council. The Council has found some exporters outside of major capital cities can struggle to maximise export potential and often fail to understand the FTA environment due to the lack of information or supporting structures for their business.<sup>216</sup>

Economic activity and export capability is underpinned by the quality and accessibility of infrastructure. The movement of physical goods to target markets and the ease of movement of human capital to and from the region is fundamental to ensure local small and medium enterprises have the best possible chance at being globally competitive. It is vital to ensure that localised industry and logistics hubs, as well as new knowledge hubs (such as the new Maroochydore CBD), have reliable, efficient links to major transportation infrastructure.<sup>217</sup>

- 4.130 Mr Nicholas Alford, an Export Consultant with the Buying Project would welcome more opportunities for regional SMEs to be better informed about how to utilise the export opportunities with FTAs and assistance to understand which trade agreements would be the most suitable.<sup>218</sup>

I would say education support and looking at the granularity of what the particular FTAs will attach themselves to, the particular products.<sup>219</sup>

- 4.131 Mr Michael Kopittke, Board Manager, Townsville Chamber of Commerce, regards Townsville as possibly the most successful regional city for start-ups.<sup>220</sup>

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<sup>215</sup> Ms Monica Topliss, *Committee Hansard*, 24 July 2018, p. 20.

<sup>216</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>217</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>218</sup> Mr Nicholas Alford, *Committee Hansard*, 24 July 2018, p. 20.

<sup>219</sup> Mr Nicholas Alford, *Committee Hansard*, 24 July 2018, p. 20.

<sup>220</sup> Mr Michael Kopittke, *Committee Hansard*, 4 October 2018, p. 5.

SafetyCulture started in Townsville. JESI started in Townsville. Our young connect product was developed here. These products are now international. The federal government's been very generous in research and development support. One of the frustrating things is that we have an incubator hub here in Townsville, but we receive no funding from the Townsville City Council or the state government.<sup>221</sup>

4.132 Mr Kopittke believes these SMEs need regional funding.

If we're going to get these start-ups going, we need these incubator hubs because they are the nucleus. We're starting companies there with one person developing to seven, moving out to their own operations and then starting on export. We need to regionalise support staff from the federal government.<sup>222</sup>

4.133 Mr Kopittke has experience in state government development in areas like Hong Kong, Singapore, Shanghai and India.<sup>223</sup>

There are some pretty good support bases out there, but we really do need some funding regionally, especially for these start-ups, because they are where these guys can link in. There's just no reason. I know there's a company in Emerald that is now looking at exporting some of its product, but we just need help—that's all we need—and some support.<sup>224</sup>

4.134 Mr Michael McMillan, Director, Policy and Investment, Townsville Enterprise Ltd described the northern Australia development agenda as very much focused on driving the development of the north and building capacity and capability in the north so the north can realise its true ambitions and its capabilities but SME exporters can play a significant role.<sup>225</sup>

...it's through the incubation and development phase that we really need support. I think FTAs represent a good opportunity through that process to see legitimate and extensive engagement with those industry sectors to define exactly what FTAs can deliver in a true sense.<sup>226</sup>

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<sup>221</sup> Mr Michael Kopittke, *Committee Hansard*, 4 October 2018, p. 5.

<sup>222</sup> Mr Michael Kopittke, *Committee Hansard*, 4 October 2018, p. 6.

<sup>223</sup> Mr Michael Kopittke, *Committee Hansard*, 4 October 2018, p. 6.

<sup>224</sup> Mr Michael Kopittke, *Committee Hansard*, 4 October 2018, p. 6.

<sup>225</sup> Mr Michael McMillan, *Committee Hansard*, 4 October 2018, p. 6.

<sup>226</sup> Mr Michael McMillan, *Committee Hansard*, 4 October 2018, p. 6.

- 4.135 Mr McMillian believes North Queensland SMEs need support to plan and develop their business.<sup>227</sup>

I think in many instances we see businesses in the north and particularly in regional centres as being accidental exporters. We need to change that process and make sure that it's part of their business plan for the long, medium and short term. That requires engagement at the early stage to make sure that these are not only fruitful but relevant to regional Australia.<sup>228</sup>

- 4.136 Managing Director of Calabria Family Wines, Mr Bill Calabria, AM, believes governments need to provide more assistance for making regional areas like the Riverina, NSW, stronger and attracting workers to grow industries.<sup>229</sup>

...the government knows we have problems in the major cities where they're overcrowded and they want to move people out, so it's a good opportunity for the government to try and assist these people who are putting their hard-earned into these regions, which are a little bit isolated. There should be some assistance in part to help continue the growth that is here. We've got the land, and we've got the opportunity to do a lot more than what we're already doing. All we need is a bit of support, which helps it grow and encourages people to come here.<sup>230</sup>

Like we said before, we have trouble with getting workers to this region for a number of reasons, but it doesn't take much to turn it around. We don't expect government to come out and give us bucketloads of money. We just want some support so that we can continue to do what we're doing as family companies. We'd like to think that we can even entice corporate companies to come to these regions.<sup>231</sup>

- 4.137 The Sunshine Coast Council believed one of the most helpful means to increase accessibility and uptake of FTAs is to break down the negative perceptions associated with them.<sup>232</sup>

This can be achieved using case studies and testimonials at a local level, which highlight easy to understand solutions for small business owners.<sup>233</sup>

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<sup>227</sup> Mr Michael McMillan, *Committee Hansard*, 4 October 2018, p. 6.

<sup>228</sup> Mr Michael McMillan, *Committee Hansard*, 4 October 2018, p. 6.

<sup>229</sup> Mr Bill Calabria, AM, *Committee Hansard*, 31 July 2018, p. 18.

<sup>230</sup> Mr Bill Calabria, AM, *Committee Hansard*, 31 July 2018, p. 18.

<sup>231</sup> Mr Bill Calabria, AM, *Committee Hansard*, 31 July 2018, p. 18.

<sup>232</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>233</sup> Sunshine Coast Council, *Submission 9*, p. 2.

- 4.138 The Council submitted that a regional area such as the Sunshine Coast would benefit from seminars and workshops promoting FTAs and direct advice and support about market access and market promotion.<sup>234</sup>

Previous experience with workshops has been that they are too theoretical and discussion is in the “billions” of dollars or for categories that are too broad or generic such as “dairy”. Often the examples provided are not matched to the export profile of the region. There would be greater benefit if Commonwealth Government presentations matched FTA opportunities to the host region and provided case studies/scenarios that resonate with local exporters.<sup>235</sup>

- 4.139 A consultant at the University of the Sunshine Coast, Mr Jason Valusaga, would welcome DFAT and Austrade improving their promotion of FTAs to businesses in regional Australia.<sup>236</sup>

I would say definitely raising more awareness and understanding of FTAs for SMEs outside big cities, so more regional.<sup>237</sup>

## Recommendation 4

- 4.140 The Committee recommends that the Australian Government trials a grant programme in selected regional areas for clusters of businesses that wish to collaborate in pursuit of export opportunities, anchored to either geographical provenance or specific sectors.**

## Chamber of Commerce and Industry of WA workshops

- 4.141 The Chamber of Commerce and Industry of Western Australia (CCI), which was contracted by Austrade to run FTA training workshops across WA in 2017 and 2018, claimed its events provide detailed and tailored insights to address relevant sectors in attendance. Some of the benefits businesses have reported from attending CCI's FTA events, according to CCI, include:<sup>238</sup>

- Building awareness of and clarifying FTAs for businesses.
- Clarifying roles of various parties so exporters have a better understanding of their responsibilities under FTAs (For example: CCI believes it is often incorrectly assumed that importers and freight

<sup>234</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>235</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>236</sup> Mr Jason Valusaga, *Committee Hansard*, 24 July 2018, p. 20.

<sup>237</sup> Mr Jason Valusaga, *Committee Hansard*, 24 July 2018, p. 20.

<sup>238</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 2.

forwarders will automatically inform the exporters of how best to take advantage of the FTA).

- Building awareness of the DFAT FTA Portal as a tool for understanding FTAs for importing/exporting and for mapping tariffs. CCI states many companies were unaware of this portal prior to attendance at CCI's FTA events.
- Understanding the benefits of FTAs in terms of tariff reductions, both current and anticipated.<sup>239</sup>
  - When FTAs drop/lower tariffs there is an immediate benefit. CCI believes businesses are not always made aware of these changes and the cost advantage they offer.
  - For example CCI highlighted that by 2029, under the China Free Trade Agreement (ChAFTA, 97.9 per cent of Australia's goods exported to China will enter duty free. Tariffs on beef of 12 to 25 per cent will be eliminated by 2024 and wine tariffs of 14 to 20 per cent will be eliminated by 2019.
- Better understanding of the indirect benefits of FTAs to exporters.<sup>240</sup>
  - Underutilisation of FTAs ultimately leads to a loss of market share, according to CCI, as importers will seek to use exporters who are using FTAs (and therefore will benefit them). This situation of not utilising the FTAs also leads to difficulties in negotiating such contracts.

4.142 The Chamber of Commerce and Industry of Western Australia (CCI) recommends the Australian Government continue to run workshops and that Austrade continues to contract organisations such as CCI to conduct FTA events, including those in relation to new trade agreements.<sup>241</sup>

4.143 Through the delivery of its FTA workshops with Austrade, CCI submits it has had the opportunity to assist business to “overcome some of the difficulties in accessing these agreements”.<sup>242</sup>

However, there are still barriers preventing SMEs from fully understanding and utilising the benefits of FTAs. These barriers should be considered when formulating future FTAs, with a focus on simplifying processes for RoOs, continuing to accommodate independently verified Certificates of Origin and

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<sup>239</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, pp. 2-3.

<sup>240</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>241</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 3.

<sup>242</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 4.

working to make business aware of the direct and indirect benefits of using FTAs.<sup>243</sup>

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<sup>243</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 4.



## 5. Lessons learnt from attempts at leveraging FTAs

### How SME exporters benefit from freer trade

- 5.1 DFAT detailed in its submission examples of SME exporters benefiting from the opportunities offered by FTAs to increase the value of their exports to FTA-partner countries.<sup>1</sup>
- 5.2 Some of the examples highlighted by DFAT are from sectors with a high proportion of SMEs, including:<sup>2</sup>
- exports of table grapes to China have increased to \$148 million in 2017, up from \$15.3 million in 2015 (before ChAFTA);
  - exports of shelled macadamias to Korea have increased to \$14 million in 2017, up from \$4.5 million in 2014 (before KAFTA);
  - exports of chipping potatoes to Korea have grown to \$11.6 million in 2017, up from \$4.3 million in 2014 (before KAFTA);
  - exports of blankets and travelling rugs to China have increased to \$8.4 million in 2017, up from \$1.5 million in 2015 (before ChAFTA);
  - exports of natural honey to Japan have grown to \$2 million in 2017, up from \$500,000 in 2014 (before JAEPA); and
  - exports of handbags to Japan have grown to \$1.4 million in 2017, up from \$51,000 in 2014 (before JAEPA).
- 5.3 DFAT shared one lesson learnt from its and its portfolio agencies Austrade and EFIC's interactions with SMEs is that the "trade intermediary sector is of

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<sup>1</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 8.

<sup>2</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 8.

key importance in assisting SME exporters to use FTAs, in the same way that a business may outsource its taxation or legal services".<sup>3</sup>

- 5.4 According to DFAT, data from the PwC research suggests SMEs lag behind large enterprises in their use of trade intermediaries, similar to the lag in FTA utilisation.<sup>4</sup>

The Government would like to encourage greater, cost-effective use by SMEs of skilled trade intermediaries as one mechanism to assist them in their FTA utilisation.<sup>5</sup>

## Economic analysis of the impact of FTAs on SMEs

- 5.5 Economists Dr Giovanni Di Lieto and Dr David Treisman submitted that the empirical evidence demonstrates that small and medium enterprises (SMEs):<sup>6</sup>
- Display sufficient productivity and profitability levels to fully benefit from Australia's comparative advantage in key FTA partner countries.
  - Do have access, but largely underutilise FTAs relative to their contribution to the domestic economy.
  - Pay lower wages than large exporting enterprises on average.
- 5.6 Dr Di Lieto and Dr Treisman claimed this indicates that "underutilisation of, and not access to FTAs is the fundamental cause of the low levels of exports and below average wages in SMEs".<sup>7</sup>
- 5.7 Furthermore Dr Di Lieto and Dr Treisman believed the empirical evidence refutes the existence of all but two of the key barriers identified in the 2016 KPMG report on leveraging FTAs for Australian trade growth, namely: <sup>8</sup>
- Opaque trade regulations.
  - Multi-jurisdictional supply chain challenges.
- 5.8 Dr Di Lieto and Dr Treisman noted Australia's SMEs maintain "disproportionately low levels of exports relative to their contribution to

<sup>3</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 9.

<sup>4</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 9.

<sup>5</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 9.

<sup>6</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 1

<sup>7</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 1

<sup>8</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 1

gross domestic product and consequently attain lower than average wage rates, despite being profitable and productive in most of the sectors under analysis".<sup>9</sup>

## **Leveraging FTAs for SMEs through a border adjustment tax (BAT)**

- 5.9 Dr Di Lieto and Dr Treisman recommend the introduction of a destination-based cash flow form of border adjustment tax (BAT).<sup>10</sup>

In general, this kind of measure is based on a simple idea to impose a flat tax rate on imports, and to grant corresponding tax rebates on exports. In other words, exports are untaxed, while imports are taxed. Border adjustment measures are normally used under a value added tax, like the GST, which applies to all consumption. The BAT also excludes any goods or services that are produced domestically, but consumed abroad.<sup>11</sup>

- 5.10 Dr Di Lieto wants the Government to consider a new tax system on trade.

My recommendation to the Australian government is that they should closely monitor whether the cash-flow border-adjustment tax works in the US.<sup>12</sup>

## ***Overcoming FTA barriers and anticipated benefits of a BAT for SMEs***

- 5.11 Dr Di Lieto and Dr Treisman suggested implementing the destination-based cash flow BAT would raise government revenue at any time when Australia's balance of trade is in deficit.

For instance, if Australia adopted a blanket 20 per cent cash flow border adjustment tax in the last financial year, which in official data registered a total trade deficit in goods and services of about A\$14 billion, the Treasury would have raised A\$2.8 billion at the net of tax breaks for exporters.<sup>13</sup>

More importantly, the proposed destination-based cash flow BAT would provide a strong economic incentive for SMEs to fully utilise FTAs and expand their export markets, thus boosting production, growth, jobs and wages in underperforming sectors.<sup>14</sup>

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<sup>9</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 2.

<sup>10</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 3

<sup>11</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 3

<sup>12</sup> Dr Giovanni Di Lieto, *Committee Hansard*, 30 July 2018, p. 31.

<sup>13</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 3

<sup>14</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 3

- 5.12 Dr Di Lieto and Dr Treisman warned this type of tax may also come under the scrutiny of the World Trade Organization, which normally allows for border adjustments only through indirect taxes (for example on transactions, such as sales and payroll), and not so indisputably through direct taxes on individuals or businesses.<sup>15</sup>

However, on the surface BAT measures do not distort trade, as long as the import tax and export rebate offset each other and also do not discriminate between economic sectors and trading partners.<sup>16</sup>

## Assisting regional SME exporters

- 5.13 The Sunshine Coast Council submitted that regional exporters would be assisted if the “compliance cost of administration prior to their first export activity could be better explained and documented”.<sup>17</sup>

More support is needed to provide guidance and specific information to potential exporters on the FTA documentation, process and costs so they can understand the business costs and impact of entering the new market. An understanding of potential non-tariff barriers in destination markets is also important so that the exporters can understand the potential issues, mitigate these and manage possible costs/issues so that it does not have a material impact on their home business.<sup>18</sup>

- 5.14 The increase in FTA look-up tables has been positive, according to the Sunshine Coast Council, which would support a continuation and expansion of this resource for exporters, as well as better marketing of this facility.<sup>19</sup>

In addition, it would be helpful if the look-up feature provided “next steps” to potential exporters so that they know how to go about getting appropriate documentation/certification to meet FTA requirements as well as indicative costs.<sup>20</sup>

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<sup>15</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 4

<sup>16</sup> Dr Giovanni Di Lieto & Dr David Treisman. *Submission 7*, p. 4

<sup>17</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>18</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>19</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>20</sup> Sunshine Coast Council, *Submission 9*, p. 2.

## Australian SMEs require long term strategies

- 5.15 The Manager of Luckypole Limited, a trading company based in Hong Kong that imports Australian food, Mr Brian Mallyon, submitted that developing a new market overseas will require SMEs to take a long term outlook.<sup>21</sup>

Australian small business has traditionally been risk averse – concerned with resources employed, costs involved and time taken to become established.<sup>22</sup>

Access to FTA's and grants, while being positive, has also pushed companies to export for the wrong reasons. Attend any food/wine fair in Asia and many will tell you they are there because of the grants provided.<sup>23</sup>

- 5.16 Mr Mallyon observed from Hong Kong that Wine Australia has done an exceptional job of putting Australian wines into the international arena, part of which is the result of the Government providing grants and subsidies.

There are however many, many wineries who fail to get any traction at all, because, once the fair ends, that is also the end of their exposure to the market, or they partner with an importer out of desperation only to find nothing comes of it.<sup>24</sup>

- 5.17 Luckypole Limited warned that all new trade entrants can easily make the mistake that China is “the opportunity”, but in fact there are several markets within Asia alone that are suitable to promote Australian products.<sup>25</sup>

A Shanghai based food consultant once told me that companies without deep pockets shouldn't enter the China market, to which I replied, it would be a shame if consumers only ever had exposure to products from the multinationals. But there is some merit in what I was told.<sup>26</sup>

- 5.18 Each Asian market is different, and each has its pros and cons, according to Luckypole, and even the market within China itself is by no means homogeneous.<sup>27</sup>

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<sup>21</sup> Luckypole Ltd, *Submission 10*, p. 3.

<sup>22</sup> Luckypole Ltd, *Submission 10*, p. 3.

<sup>23</sup> Luckypole Ltd, *Submission 10*, p. 3.

<sup>24</sup> Luckypole Ltd, *Submission 10*, p. 4.

<sup>25</sup> Luckypole Ltd, *Submission 10*, p. 4.

<sup>26</sup> Luckypole Ltd, *Submission 10*, p. 4.

<sup>27</sup> Luckypole Ltd, *Submission 10*, p. 4.

Understanding the market is vital. That requires “on the ground” assistance either by way of local support in the intended market, or an overall level of government support in excess of or substituting for the monetary assistance that comes from the FTA or grants.<sup>28</sup>

- 5.19 Luckypole cautioned against expectations of quick access to the China market as Australian product/service may take in excess of 12 months to get to market when taking into account, market research, the building on any sort of relationship, packing for the local market and meeting local regulations.<sup>29</sup>

A small company is often not resourced for that, meaning a consultancy doesn't have any incentive to be involved. End result is often a slap dash approach or reluctance to even try.<sup>30</sup>

## **SMEs contribute to reviews of FTAs and make changes**

- 5.20 FTAs have built-in Committee mechanisms to varying degrees and many, according to DFAT such as the China-Australia FTA, the Japan-Australia Economic Partnership Agreement, and the ASEAN Australia-New Zealand FTA (AANZFTA), have mandated periodic review mechanisms.<sup>31</sup>

DFAT uses feedback and lessons learnt from SMEs to make changes to FTAs. For example, the First Protocol to amend AANZFTA simplified origin requirements in response to requests from SMEs and other businesses.<sup>32</sup>

- 5.21 The Australian Industry Defence Network Victoria outlined that non-tariff barriers remain significant impediments to its SME membership and are not addressed effectively in FTAs and believes the Government needs to demonstrate where FTAs have resulted in better entry to new markets.<sup>33</sup>
- 5.22 The AIDN-VIC highlighted how acquisition of goods through foreign defence forces are often managed outside of negotiated trade pathways included in FTAs.<sup>34</sup>

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<sup>28</sup> Luckypole Ltd, *Submission 10*, p. 4.

<sup>29</sup> Luckypole Ltd, *Submission 10*, p. 4.

<sup>30</sup> Luckypole Ltd, *Submission 10*, p. 4.

<sup>31</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 9.

<sup>32</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 9.

<sup>33</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 2.

<sup>34</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 3.

What is Government doing to ensure that existing and emerging FTAs have been coordinated in such a way as to provide benefit and easier entry to market with foreign defence forces and their associated acquisition processes.<sup>35</sup>

- 5.23 The Defence Teaming Centre outlined how its members found “Certificates of Origin continue to be burdensome and complicated for SMEs to manage”.<sup>36</sup>

The Government might like to consider simplification of this requirement.<sup>37</sup>

## Sports diplomacy and building trade with China

- 5.24 Mr Andrew Hunter, the General Manager for China Engagement at the Port Adelaide Football Club that has been promoting and playing AFL matches in China since 2017 believes Australia is starting to recognise the potential of sports diplomacy.<sup>38</sup>

...there is an understanding that sport can be leveraged to achieve a broader diplomatic agenda. In our particular case I think the relationships that can be built through international sporting events are real. The growing connection between the business communities in our particular case in Australia and China and the capacity to bring them together around sport I think offers a tremendous opportunity.<sup>39</sup>

- 5.25 Mr Hunter observes from his experience the trade agreements that are struck, where they are of benefit to particular sectors, “axiomatically are a good thing for those businesses involved in the sectors”.<sup>40</sup>

If you look at our particular experience, we're dealing between Australia and China with a specific focus on small businesses. The trade agreement will not overcome the impediments to doing business in China. Doing business in China means to do business in a fundamentally different cultural, historic, linguistic, economic and political context, and the understanding that's needed for small businesses that don't perhaps have the time to be able to invest in intercultural understanding, in language materials to be able to be successful

<sup>35</sup> Australian Industry Defence Network Victoria, *Submission 25*, p. 3.

<sup>36</sup> Defence Teaming Centre, *Submission 27*, p. 2.

<sup>37</sup> Defence Teaming Centre, *Submission 27*, p. 2.

<sup>38</sup> Mr Andrew Hunter, *Committee Hansard*, 3 August 2018, p. 18.

<sup>39</sup> Mr Andrew Hunter, *Committee Hansard*, 3 August 2018, p. 18.

<sup>40</sup> Mr Andrew Hunter, *Committee Hansard*, 3 August 2018, p. 18.

in those contexts, in the understanding required to navigate fundamentally different regulatory environments or the IP and certification needed in China.<sup>41</sup>

The idea that a free trade agreement will be the end point and naturally lead to success for small businesses is flawed and I think far greater investment and resourcing is required for small business to be able to take that leap and to be able to overcome these very real impediments for businesses that are constrained in terms of time and resources.<sup>42</sup>

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<sup>41</sup> Mr Andrew Hunter, *Committee Hansard*, 3 August 2018, p. 18.

<sup>42</sup> Mr Andrew Hunter, *Committee Hansard*, 3 August 2018, p. 18.



## 6. Role and effectiveness of support structures and networks in helping leverage FTAs

### Communicating the benefits of FTAs to SMEs

- 6.1 Communicating the benefits of the agreements – and how to use them – is important to maximising the benefits to Australian businesses, and our economy, according to DFAT.<sup>1</sup>
- 6.2 DFAT submitted that PwC’s Free Trade Agreement Utilisation Study reveals that businesses obtain information and advice about FTAs primarily from Government websites, industry associations, customs brokers and freight forwarders, Government-run seminars and trade newspapers.<sup>2</sup>
- 6.3 Professor Will Rifkin, the Director and Chair in Applied Regional Economics, Hunter Research Foundation Centre, University of Newcastle, for many “small to medium-sized enterprises, export opportunities are a learning process”.<sup>3</sup>

So they [SMEs] need information, they need relationships with other companies that they can learn from, and they need motivation through free trade agreements. Tax things could be another, but I’m also hearing the notion of capacity – port capacity. So I guess the one thing would be for the government to look at a more holistic way. There’s an economic system with

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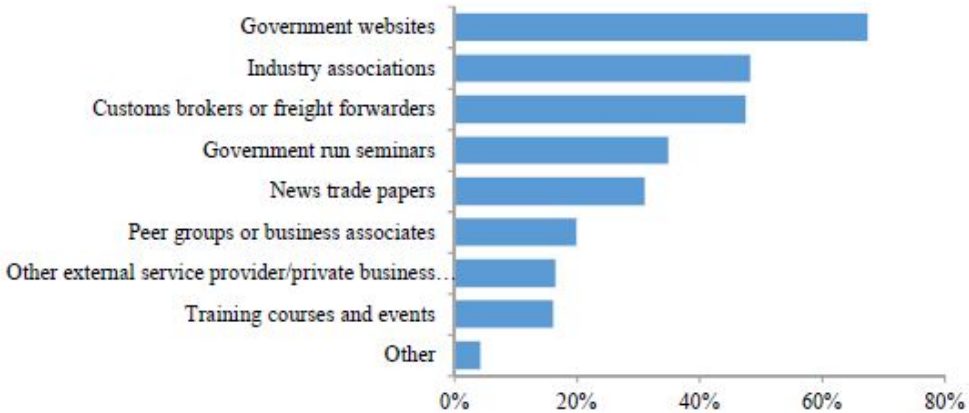
<sup>1</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 9.

<sup>2</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 9.

<sup>3</sup> Professor Will Rifkin, *Committee Hansard*, 1 August 2018, p. 21.

individual actors who need to learn to do new things, but they also need the capacity to be able to do those things—infrastructure capacity.<sup>4</sup>

**Figure 6.1 Responses to survey question – Where does your business obtain information and advice about FTAs**



Source: PwC Free Trade Agreement Utilisation Study, Figure 12

Sources: Department of Foreign Affairs and Trade, Austrade & Efic, Submission 12 – PwC Free Trade Agreement Utilisation Study, Figure 12

6.4 DFAT stated the Government’s ongoing FTA outreach activities largely focus on helping SMEs and other businesses to understand and take advantage of Australia’s FTAs, particularly our FTAs with Korea, Japan and China.<sup>5</sup>

## The role of Austrade in supporting exporters

6.5 Austrade is the key Australian Government agency responsible for gathering information and insights about international market opportunities for Australian business.<sup>6</sup>

6.6 Austrade submitted that in 2017-18, it provided over 12,000 services to more than 4,800 Australian organisations, helping them to identify export opportunities or partnerships in overseas markets. In the same year

<sup>4</sup> Professor Will Rifkin, *Committee Hansard*, 1 August 2018, p. 21.

<sup>5</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 10.

<sup>6</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

Austrade helped facilitate 113 inward investment outcomes worth almost \$4.8 billion.<sup>7</sup>

In 2017-18 Austrade completed its organisational capability assessment and is implementing a transformation plan that puts our clients at the centre of everything we do, building on stronger digital services and partnership and collaboration across governments and industry.<sup>8</sup>

**Table 6.1 Austrade's appropriation, 2015-16 to 2021-22 (\$ 000)**

<b>Year</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19 (current)</b>	<b>2019-20 (Forward estimates)</b>	<b>2020-21 (Forward estimates)</b>	<b>2021-22 (Forward estimates)</b>
<b>Total Dept.</b>	229,942	213,957	204,442	217,222	209,459	209,578	210,042
<b>Operat. Dept.</b>	215,275	198,436	188,166	201,686	194,781	194,873	195,737
<b>Capital Budget</b>	14,160	14,526	15,176	14,135	14,178	14,205	14,305
<b>Equity</b>	507	995	1,100	1,401	500	500	0
<b>Admin.</b>	140,897	140,113	140,518	140,871	138,650	137,900	137,900

*Source: Australian Trade and Investment Commission, Submission 12.2*

- 6.7 Austrade claimed it “continues to deliver results for Australian exporters and international investors through our global network, commercial connections and expert market-specific advice”.<sup>9</sup>
- 6.8 Austrade stated it has managed the efficiency dividend requirement of its current \$217 million annual budget with nearly \$141 million spent on administration by looking “carefully at how to implement savings in a way which limits the impact on service delivery, and ensures Austrade can continue to meet its corporate performance measures”.<sup>10</sup>

<sup>7</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 2.

<sup>8</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 2.

<sup>9</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 2.

<sup>10</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 2.

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Client satisfaction with Austrade services has increased from 87 per cent in 2015-16 to 89 per cent in 2016-17 and 2017-18.<sup>11</sup>

6.9 KPMG welcomed a variety of initiatives administered by Austrade, including assistance provided to SME exporters via the TradeStart network and 'FTA Toolkit' resources to support outreach, promotion and presentations in relation to Australia's FTAs.<sup>12</sup>

6.10 Executive Chairman of the Advitech Group, Mr Larry Platt, agreed that negotiating FTAs were an achievement but the challenge was making more businesses use them to become exporters.<sup>13</sup>

All I have to say is that achieving an FTA is one thing but recognising the opportunity and publicising the opportunities to SMEs who may not already be in the market would be a very good thing. Currently that's Austrade. But to me there's a big gulf between getting an FTA and actually taking advantage of it.<sup>14</sup>

6.11 The South Australian Government declared Austrade's FTA outreach education program and web-based FTA portal, instituted in the wake of the conclusion of the major North Asian FTAs in 2014 and 2015, have been useful in bringing export opportunities to SMEs' attention but warned against any reduction in programs due to a belief that most SMEs have been made aware of FTAs.<sup>15</sup>

However, resourcing needs to be maintained and, preferably, increased, not reduced on the assumption that the several years for which those agreements have been in place has made their content well known. There is considerable churn in the SME export community. Up to half of all small business exporters drop out of, or into, export markets every year, according to Austrade.<sup>16</sup>

6.12 Mr Michael Kopittke, Board Manager, Townsville Chamber of Commerce believes decentralisation would help drive interest in exporting.<sup>17</sup>

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<sup>11</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 2.

<sup>12</sup> KPMG, *Submission 4*, p. 5.

<sup>13</sup> Mr Larry Platt, *Committee Hansard*, 1 August 2018, p. 37.

<sup>14</sup> Mr Larry Platt, *Committee Hansard*, 1 August 2018, p. 37.

<sup>15</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>16</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>17</sup> Mr Michael Kopittke, *Committee Hansard*, p. 25.

We've got the ports in Townsville, Cairns, Darwin and Gladstone. We need resources out of Canberra, or wherever they are, to these marketplaces to fast-track and take advantage of these FTAs. You've done a great job getting the FTAs; now we've just got to get the back end.

6.13 Executive Director of NORTH Link Mr Chris James wants increased resources for Austrade to help lift their trade advisers' expertise.

...if there were one thing at the federal level that we'd suggest, it would be beefing up Austrade. I think Austrade is very good at giving general advice on what to look out for in certain jurisdictions, and they do have some very good people in country. However, their performance, according to my members, is mixed in terms of direct assistance to exporters in finding buyers.<sup>18</sup>

I understand that they can't do due diligence on potential foreign partners and distributors. They are prohibited from doing that. I think that'd be a very useful service for them to undertake. If that prohibition could be removed and they were able to undertake that, I think that'd be quite useful for some of our businesses in Melbourne's north.<sup>19</sup>

6.14 Chair and Founder of Newcastle start-up Eighteen04 Inc. and BlueZone Group, Dr Gunilla Burrowes, sees merit in Government developing a one stop shop.<sup>20</sup>

...my one-stop shop idea where SMEs and start-ups can communicate with an individual about their specific problem and get some support and advice on a free and timely basis.<sup>21</sup>

6.15 Project Director at HunterNet Mr Wayne Diemar believes SMEs would welcome a one-stop shop to assist exporters.<sup>22</sup>

We had something similar here at Wharf Road. We have a lot of government departments all together and all the industry associations as well. I think something like that again—almost like a tourist information centre—would be a real bonus to the region.<sup>23</sup>

<sup>18</sup> Mr Chris James, *Committee Hansard*, 30 July 2018, p. 11.

<sup>19</sup> Mr Chris James, *Committee Hansard*, 30 July 2018, pp. 11-12.

<sup>20</sup> Dr Gunilla Burrowes, *Committee Hansard*, 1 August 2018, p. 21.

<sup>21</sup> Dr Gunilla Burrowes, *Committee Hansard*, 1 August 2018, p. 21.

<sup>22</sup> Mr Wayne Diemar, *Committee Hansard*, 1 August 2018, p. 21.

<sup>23</sup> Mr Wayne Diemar, *Committee Hansard*, 1 August 2018, p. 21.

- 6.16 COSBOSA believed that the Government has a responsibility to support SMEs who don't have the resources to invest time in developing a deep understanding of FTAs.<sup>24</sup>
- 6.17 COSBOSA submitted that DFAT and Austrade must invest "more staff resources and time into local initiatives that support Australian SMEs in gaining access to international markets, particularly in Asia where cultural and linguistic differences can cause more difficulties".<sup>25</sup>
- 6.18 Mr Troy Williams, Chief Executive Officer, Australian Dental Industry Association referred to an ADIA survey of its members on where businesses get their information on FTAs from – 60 per cent was from the ADIA and 23 per cent from Austrade.

There was no real surprise. Sixty per cent got it from us, from ADIA. That's the traditional role of an industry association...About 50 per cent of businesses relied on third-party consultancy firms. The problem is, of course, that, when you're an SME, deciding whether or not an FTA is of value—spending \$150 or \$250 an hour—is just cost prohibitive if you're only going on a fishing exercise to figure out if there's any value [in exporting].<sup>26</sup>

And when we asked them what advice they got from Austrade, it was about 23 per cent. So they got support from Austrade...But the challenge [for Austrade] is that even when they try and create them into industry groupings, such as manufacturing, within manufacturing you've got everything from heavy manufacturing through to medtech, through to pharma and through a whole range of sectors. As noble as Austrade's efforts have been, it has been very difficult for them to create specialty.<sup>27</sup>

- 6.19 Mr John Chapman, the Small Business Commissioner for South Australia believes there remains a need for governments to work together and to maintain the "ongoing and expanded support for TradeStart and the education aspects to help small business" access export and the trade opportunities.<sup>28</sup>

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<sup>24</sup> Council of Small Business Organisations of Australia, *Submission 26*, p. 1.

<sup>25</sup> Council of Small Business Organisations of Australia, *Submission 26*, p. 1.

<sup>26</sup> Mr Troy Williams, *Committee Hansard*, 2 August 2018, p. 45.

<sup>27</sup> Mr Troy Williams, *Committee Hansard*, 2 August 2018, p. 45.

<sup>28</sup> Mr John Chapman, *Committee Hansard*, 3 August 2018, p. 26.

[SMEs] often don't know what they don't know. Having the ability at that state level, with support from the Commonwealth, to do that opens up a whole range of opportunities, not just through the FTAs.

- 6.20 The Ai Group outlined that an important element in the success of converting opportunities from free trade agreements into commercial outcomes is the role of Austrade, as well as state trade mission agency staff, operating in market and advising companies in Australia.<sup>29</sup>
- 6.21 The Ai Group conceded such commitments are expensive and resource-intensive, but the significant investment by the Government has made in negotiating these agreements – \$350 million according to the Productivity Commission Report into Bilateral and Regional Trade Agreements – warrants a significant investment post implementation to ensure that Australian companies benefit from the gains secured by DFAT.<sup>30</sup>

As a consequence of successive years of efficiency targets, the frontline presence of business capacity building agencies such as Austrade have diminished to unacceptable levels, and inconsistency across Australia.<sup>31</sup>

### **Availability of Austrade's TradeStart advisors**

- 6.22 Using ABS data and the published tender documents for Austrade's national frontline service, TradeStart, Ai Group has decided that there is one TradeStart Advisor for 400 existing exporters in Tasmania whereas in Victoria the ratio is 1 export advisor for 5120 existing exporters.<sup>32</sup>

We make the distinction on existing exporters, as with those ratios, it is difficult for potential or emerging exporters to access services in Victoria to transition to established exporters. For example, in Melbourne there is one TradeStart Advisor with a contracted portfolio of 80 clients.<sup>33</sup>

- 6.23 Austrade outlined there was 29 TradeStart advisers in 28 offices:<sup>34</sup>
- Seven are based in metropolitan as in the mainland capital cities and Gold Coast;

<sup>29</sup> Australian Industry Group, *Submission 34*, p. 17.

<sup>30</sup> Australian Industry Group, *Submission 34*, p. 17.

<sup>31</sup> Australian Industry Group, *Submission 34*, p. 17.

<sup>32</sup> Australian Industry Group, *Submission 34*, p. 17.

<sup>33</sup> Australian Industry Group, *Submission 34*, pp. 17-18.

<sup>34</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 1.

- There are 21 offices across regional Australia.

6.24 These TradeStart advisers handle about 1,400 clients per year with a client split of 650 clients in metro and 750 in regional areas.<sup>35</sup>

6.25 Of Austrade's 100 FTA seminars, Ai Group noted two of the largest were held in Melbourne, with 25 per cent of attendees self-identifying as "intending to export". On those numbers alone, Ai Group believes the available support under TradeStart would be expired mid-year.<sup>36</sup>

Opening markets through FTAs is only one element of creating a successful exporter. Companies, particularly SME's require additional coaching to ensure that they export efficiently and successfully. TradeStart has been an important partnership program for Austrade to deliver export coaching services across the country.<sup>37</sup>

6.26 The National Manager, Business and International Advisory Services, Ai Group, Ms McGrath believes Austrade is short-staffed in Melbourne.<sup>38</sup>

We find with the cutbacks to Austrade, and in particular their on-the-ground service TradeStart, there is a huge gap in what companies can access to get into export. Not so many years ago there were five TradeStart advisers in Melbourne, now there is one TradeStart advisor who has 80 clients on his roster each year.<sup>39</sup>

6.27 Chief Executive of Bioaction Pty Ltd, Mr Larry Botham, would welcome one on one advice about trade issues as required similar to the Government's Entrepreneurs Program.<sup>40</sup>

As a small business, it would be nice if we had the situation where you had a business adviser coming to your business and working through those layers within this. The free trade agreement's only one part of it, which is obvious from today's conversation. We benefit from AusIndustry through the Entrepreneurs' Programme and Growth Services, where we have a business

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<sup>35</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 1.

<sup>36</sup> Australian Industry Group, *Submission 34*, p. 18.

<sup>37</sup> Australian Industry Group, *Submission 34*, p. 18.

<sup>38</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 1.

<sup>39</sup> Ms Louise McGrath, *Committee Hansard*, 30 July 2018, p. 1.

<sup>40</sup> Mr Larry Botham, *Committee Hansard*, 1 August 2018, p. 37.



manager who sits with us, not on an overly regular basis but certainly who works with us around business and understands our needs.<sup>41</sup>

## Availability and cost of Austrade assistance

- 6.28 In the food space, NORTH Link representing businesses in northern Melbourne, believes Australian food exporters have a strong story to sell when supported by Austrade, of clean, healthy supply chains and being considered a “safe” country of origin. However, NORTH Link warns the route to market and the impacts on cash flow, selling in new markets, and labelling and custom requirements become difficult to navigate.<sup>42</sup>

Austrade excels in giving general advice on what to look out for, but a mixed performance is reported on direct assistance to exporters. Notwithstanding this, there is also some positive feedback about introductions to buyers.<sup>43</sup>

- 6.29 Some long-time exporters have indicated to NORTH Link that there is less free direct assistance from Austrade than there used to be.<sup>44</sup>

Smaller SME manufacturers inform NORTH Link that they need advice and options and do not want to pay huge amounts for it.<sup>45</sup>

- 6.30 NORTH Link led a food and beverage delegation to China in 2017 and it welcomed Austrade representatives turning up to the meeting to lend weight to delegation’s standing and presence.<sup>46</sup>

- 6.31 NORTH Link described the information technology capability of Austrade as somewhat limited.<sup>47</sup>

Customer Relationship Management systems need to integrate other data sources like AusIndustry activity etc to have whole of business life intelligence available so they have analytic ability rather than just internal reporting.

Austrade could also have more pro-active social media communications and a greater presence outside capital city CBDs e.g. regular events.<sup>48</sup>

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<sup>41</sup> Mr Larry Botham, *Committee Hansard*, 1 August 2018, p. 37.

<sup>42</sup> NORTH Link, *Submission 40*, p. 3.

<sup>43</sup> NORTH Link, *Submission 40*, p. 3.

<sup>44</sup> NORTH Link, *Submission 40*, p. 3.

<sup>45</sup> NORTH Link, *Submission 40*, p. 3.

<sup>46</sup> NORTH Link, *Submission 40*, p. 3.

<sup>47</sup> NORTH Link, *Submission 40*, p. 3.

- 6.32 NORTH Link believes the critical factor in most export success is quality overseas partners.<sup>49</sup>

However, we understand Austrade are also not legally allowed to do due diligence on potential foreign partners but can only provide an exporter a list of potential partners and leave the room.<sup>50</sup>

- 6.33 The South Australian Government believes since a significant problem for exporters is the difficulty in clarifying benefits for individual companies shipping specific products to specific markets, more practical assistance should be considered by Austrade at this level of individual companies and shipments, especially in mature markets like the United States of America.<sup>51</sup>

Austrade's decision to cease providing trade facilitation assistance in some markets - especially, in the FTA context, the United States of America- needs reconsidering.<sup>52</sup>

- 6.34 The South Australian Government considered Austrade's inflexible charging practices a "disincentive to accessing its in-market support".<sup>53</sup>

Its charges per hour are the same regardless of volume of business. This has been an issue with South Australia's business missions, mostly to markets with which FTAs are in place and involving almost entirely SMEs, and their follow up.<sup>54</sup>

- 6.35 The South Australian Government believes these state missions generate consistent large volumes of work for Austrade, introduce it to many new client businesses, and support its strategic objectives.<sup>55</sup>

It is South Australia's position that some form of tiered pricing structure should be considered.<sup>56</sup>

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<sup>48</sup> NORTH Link, *Submission 40*, p. 3.

<sup>49</sup> NORTH Link, *Submission 40*, p. 3.

<sup>50</sup> NORTH Link, *Submission 40*, p. 3.

<sup>51</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>52</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>53</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>54</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>55</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>56</sup> Government of South Australia, *Submission 30*, p. 2.

6.36 Chairman and Owner of GJR Technologies Pty Ltd trading as Grabba International, Mr Ross McKinnon, welcomed the level of support by Austrade and other agencies.<sup>57</sup>

I actually think we're generally well supported by the government. There are lots of little avenues all over the place, from Austrade through to Efic and everything...there are a lot of opportunities.<sup>58</sup>

**Figure 6.2 Winemaker Bill Calabria meets Committee Chair and Deputy Chair**



Winemaker Bill Calabria (centre) of Calabria Family Wines meets Trade Sub-Committee Chair Mr Ted O'Brien MP (left) and Deputy Chair Mr Graham Perrett MP (right) at the family winery in Griffith, NSW.

<sup>57</sup> Mr Ross McKinnon, *Committee Hansard*, 23 July 2018, p. 21.

<sup>58</sup> Mr Ross McKinnon, *Committee Hansard*, 23 July 2018, p. 21.

## Supporting trade delegations to or from overseas markets

- 6.37 Badge of government is an excellent 'door opener' according to KPMG for Australian SMEs to explore opportunities in many of Australia's top and emerging trade partners.<sup>59</sup>

In our experience, government-to-government links can result in meetings between businesses and domestic organisations and agencies that can be integral to effective market entry and success. It is also important to note that these benefits can be realised on smaller missions, with or without a Minister present.<sup>60</sup>

- 6.38 KPMG outlined that historically the federal, state and territory governments have provided the majority of trade mission support, though local governments and councils are becoming increasingly active.<sup>61</sup>

Where multiple governments are involved in supporting a trade activity (e.g. a presence at an international trade show) it is important that activities and support are coordinated and that any in-market presence is one of 'Team Australia'.<sup>62</sup>

- 6.39 NORTH Link, which is the umbrella business networking body promoting the economic development of Melbourne's north, started its Melbourne's North Food Group (MNFG) project in early 2018 has used international trade shows to assist food and beverage manufacturers and their supply chain to grow and become export ready.<sup>63</sup>

- 6.40 The food and beverage industry profile in Melbourne's north is strong, according to NORTH Link, in dairy, cheese making, meat and smallgoods, coffee, craft beer, wine, health foods, pastry products, biscuits and chocolates.<sup>64</sup>

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<sup>59</sup> KPMG, *Submission 4*, p. 4.

<sup>60</sup> KPMG, *Submission 4*, p. 4.

<sup>61</sup> KPMG, *Submission 4*, pp. 4-5.

<sup>62</sup> KPMG, *Submission 4*, p. 5.

<sup>63</sup> NORTH Link, *Submission 40*, p. 1.

<sup>64</sup> NORTH Link, *Submission 40*, p. 1.

Most manufacturers in Melbourne's North are not exporters but most of these do have an aspiration to export. Notwithstanding this, there are a number of exporters of great scale.<sup>65</sup>

- 6.41 In early international work, MNFG has taken members to trade shows in Thailand, Dubai and NORTH Link have also hosted an inbound delegation from Chongqing and Beijing.<sup>66</sup>

NORTH Link also led a food and beverage delegation to Chongqing in May 2017. NORTH Link and MNFG have also developed relationships with local Chinese traders who trade goods back to China as well as through Chinese business networks locally.<sup>67</sup>

- 6.42 KPMG noted many trade missions include a series of networking events and targeted roundtable meetings for mission participants and their hosts.<sup>68</sup>

These, when done well, foster formal and informal links between Australian and foreign businesses and policy makers. This not only creates opportunities for new business to be done but facilitates the flow of ideas and information between the two (or more) economies.<sup>69</sup>

- 6.43 KPMG highlighted the importance of trade missions and related engagement activities at providing government officials with "opportunities to understand the prospects and challenges facing Australian businesses in an increasingly globalised world".<sup>70</sup>

This information and these links can be used to support policy development and improve the effectiveness of future trade development activities supported by government.<sup>71</sup>

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<sup>65</sup> NORTH Link, *Submission 40*, p. 1.

<sup>66</sup> NORTH Link, *Submission 40*, p. 1.

<sup>67</sup> NORTH Link, *Submission 40*, pp. 1-2.

<sup>68</sup> KPMG, *Submission 4*, p. 5.

<sup>69</sup> KPMG, *Submission 4*, p. 5.

<sup>70</sup> KPMG, *Submission 4*, p. 5.

<sup>71</sup> KPMG, *Submission 4*, p. 5.

## Expanding the Export Market Development Grants scheme

6.44 The Export Market Development Grants scheme (EMDG), administered by Austrade, is a financial assistance program for export-ready SMEs. DFAT claims it encourages businesses to increase international marketing and promotion expenditure to boost international sales.<sup>72</sup>

6.45 The funding and forward estimates for the EMDG scheme last year 2017-18 and in 2018-19 was/is \$138.9 million per year.<sup>73</sup>

The payout factor in 2017-18, for those eligible for more than \$40,000 of reimbursement of promotional expenses, was 29 cents in the dollar. So the maximum level of reimbursement payable was \$72,000 rather than \$150,000 as provided for by the EMDG Act.<sup>74</sup>

6.46 The Australian Industry Group submitted that the EMDG scheme plays an important role in encouraging small and medium businesses to export new products and services, and to access new markets. Ai Group supported the review of the EMDG scheme by Mr Michael Lee that showed a strong return for the money invested in the scheme.<sup>75</sup>

KPMG found that each EMDG dollar generates an economic benefit of \$7.03 when industry spillovers and productivity gains are taken into account. The scheme effectively redistributes productive resources from Australian taxpayers (including firms) to new and emerging exporters.<sup>76</sup>

6.47 The Ai Group encouraged the Government to continue funding the program so that it remains a viable program where the benefits to applicants outweigh the costs of applying.<sup>77</sup>

6.48 Owing to the success of the EMDG scheme, the Ai Group recommended the Government “Progressively increase the budget allocation for EMDG by \$12.4 million per year over the next three years to \$175 million”.<sup>78</sup>

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<sup>72</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 14.

<sup>73</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 1.

<sup>74</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 1.

<sup>75</sup> Australian Industry Group, *Submission 34*, p. 18.

<sup>76</sup> Australian Industry Group, *Submission 34*, p. 18.

<sup>77</sup> Australian Industry Group, *Submission 34*, p. 18.

<sup>78</sup> Australian Industry Group, *Submission 34*, p. 18.

- 6.49 Managing Partner of Cross & Co Lawyers, Mr Warren Cross, feared that due to a lack of funding for the EMDG scheme compared to applicants, the “certainty of rebate is no longer present”.<sup>79</sup>

The proven effectiveness of the Scheme is under dire threat. In my experience, access to finance is the greatest impediment to SME’s capitalizing on free trade agreements. In the past, a fully funded Export Grant Scheme has successfully filled this gap.<sup>80</sup>

- 6.50 Cross & Co Lawyers’ submission submitted the “Export Market Development Grant Scheme must have an annual budget increase of \$35 million to restore certainty of rebate”.<sup>81</sup>

It is certainty of rebate which has been the cornerstone of the Scheme’s success in developing global niche players across a wide diversity of industries. Atlassian credits export grant support, as vital to its early international success. Notably they applied at a time when the level of rebate was known, prior to export promotion funds being committed.<sup>82</sup>

- 6.51 Cross & Co Lawyers’ claimed that Austrade estimates a 50 per cent shortfall in the second Export Grant tranche rebate in 2018 (up from 34 per cent in 2017).<sup>83</sup>

SME’s do not know the level of export promotion rebate they will receive going forward. This is undermining the stated objective of the Scheme, which is to increase the level of export promotion. The shortfall is directly attributable to changes made to the Scheme in 2014 by the [Government], changes which were not adequately funded.<sup>84</sup>

- 6.52 Mr Warren Cross, Senior Legal Counsel, Cross & Co Lawyers outlined that the export grants scheme is a very tightly run scheme and nothing like the R&D scheme where applicants may fill out a tax return and get money back from their tax outlay.<sup>85</sup>

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<sup>79</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>80</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>81</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>82</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>83</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>84</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>85</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, pp. 42-43.

Every export grant application is fully audited. Every item has to be audited through invoice and bank statement. So these companies have been put through that audit process to receive an after-tax rebate of 10 cents in the dollar. But more importantly, their cashflow has been knocked to smithereens because they were logically expecting that if a government advertises its scheme will pay a rebate of up to \$150,000 dollars then somewhere around that mark would be paid.<sup>86</sup>

- 6.53 To illustrate Mr Cross detailed an Austrade notice of determination from a client dated 27 June 2018. The client was in their third year of export.<sup>87</sup>

They've generated \$2.6 million in export earnings. They spent \$245,000. They were entitled to a rebate of \$120,000. They got \$40,000, and then the second payment, instead of being \$80,000, was \$23,479. So instead of getting \$80,000 they got \$23,000. The main problem is that they were informed about the shortfall in June 2018, which is in respect of money that they spent for the year ending June 2017. That means they are now confronting the fact that the money they spent in good faith in the 2017-18 grant year is likely to be subject to the same shortfall.<sup>88</sup>

- 6.54 Mr Cross admitted he cannot predict what clients may receive back from the government's EMDG scheme.

You either make the scheme fit the budget or you make the budget fit the scheme. At the moment we're doing neither. We've basically got to the point where, when I go out and advise clients what they will get back under the export grants scheme, I have to say to them in good faith, 'I have no idea.' Why I have no idea is because the first tranche, that is the amount that you're guaranteed, is determined in the July after the financial year in which the company has spent the money. That first tranche can slide up or down. It's been as high as \$90,000; it's been as low as \$27,000; It's currently \$40,000. But it can slide and it's determined after the event.<sup>89</sup>

- 6.55 The one thing Mr Troy Williams, Chief Executive Officer, Australian Dental Industry Association would introduce to the EMDG scheme is a "degree of predictability" for members wanting to market Australian products at international trade shows.<sup>90</sup>

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<sup>86</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 43.

<sup>87</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 43.

<sup>88</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 43.

<sup>89</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 43.

<sup>90</sup> Mr Troy Williams, *Committee Hansard*, 2 August 2018, p. 49.



When we go to them and say, 'You're going to be at a trade show in Cologne and there will be 120,000 dentists who are going to buy your product and 13,000 wholesalers who want to take up your product and introduce it to the market.' We need to be able to go to them with a fair degree of certainty and say, 'The cost is \$13,000. The Australian Dental Industry Association will chip in \$4,000 and through the Export Market Development Grants scheme you'll get another \$2,500.' Then they can make a decision. It's that not knowing whether they'll get \$250 or \$2,500 that's the challenge.<sup>91</sup>

- 6.56 Cross & Co Lawyers' noted the Singapore Government spends six times more per capita on SME export support, than the Australian Government.<sup>92</sup>

[Singapore's] direct export grants are more than double those of Australia. It recognises SME internationalisation is the key to lifting national productivity. As a high cost country in a low cost region, it realises it must move higher up the value added tree to maintain its standard of living.<sup>93</sup>

- 6.57 The Chief Executive Officer of Trisco Foods Pty Ltd, Mr Michael Tristram, supported an expansion of the EMDG system.<sup>94</sup>

...you've already got a footprint there, so I think that would be the fastest, easiest and best method for push factors. You can't really build the burning platform for organisations; if they're not willing to get out there and give it a go, there's not much you can do for them. But any kind of incentivising for them to look beyond the shores of Australia will help significantly, through either EMDG or some kind of tax code change where exports are a little bit more incentivised.<sup>95</sup>

- 6.58 The Director of Arfoods Group Mr Pietro Pace wants greater support for longer from a better funded Austrade.<sup>96</sup>

...provide longer financial support because my understanding is, with Austrade, the first year you can claim 50c in the dollar. In the second year, it goes into a sliding scale; it goes less than that. I think longer term financial support would help establish those Australian products in those overseas markets. I think provide longer support and more financial support, because, at the end of the day, we're trying to create more jobs here, which will help not

<sup>91</sup> Mr Troy Williams, *Committee Hansard*, 2 August 2018, p. 49.

<sup>92</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>93</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>94</sup> Mr Michael Tristram, *Committee Hansard*, 23 July 2018, pp. 15-16.

<sup>95</sup> Mr Michael Tristram, *Committee Hansard*, 23 July 2018, pp. 15-16.

<sup>96</sup> Mr Pietro Pace, *Committee Hansard*, 30 July 2018, p. 12.

only ourselves personally and our businesses but the whole Australian economy.<sup>97</sup>

- 6.59 Mr Paul Pearsall, Managing Director of Australian Grain Link Pty Ltd wants to see “better resourcing, if not greater resourcing, of the Austrade officers”.<sup>98</sup>
- 6.60 Mr Gary Dawes, the Senior Trade Consultant, International Trade, at the NSW Business Chamber also called for the Australian Government to provide “more funding for the export market development grants”.<sup>99</sup>
- 6.61 Senior Consultant with EMDG Consulting, Mr John Reeves Taylor, believed any SMEs willing to target exporting to new FTA markets should be able to re-apply for EMDG, even when they may have already exhausted their allocation from the grant scheme some years beforehand.<sup>100</sup>

On the assumption that the EMDG scheme were adequately funded and on the assumption that there were no changes to the current rules, there would be merit in the committee considering making a recommendation that those applicants who wish to tackle new markets which are described by the free trade agreements we've entered into—that is, over and above those claim years they've already had—would have merit.<sup>101</sup>

- 6.62 The Australian Dental Industry Association (ADIA), as the peak business organisation representing manufacturers and suppliers of innovative dental products, submitted the Australian Government should commit to a long-term increase in funding for the Export Market Development Grant (EMDG) scheme to give SMEs the financial means and confidence to expand into markets opened up by Australia's FTAs.<sup>102</sup>

The Export Market Development Grants Scheme (EMDG) is the key Australian Government assistance programme for aspiring and current exporters. SMEs across the dental sector rely on it to take full advantage of the FTAs that the Australian Government negotiates. However, the lack of a long-term funding commitment to maintain the scheme in the future makes it

<sup>97</sup> Mr Pietro Pace, *Committee Hansard*, 30 July 2018, p. 12.

<sup>98</sup> Mr Paul Pearsall, *Committee Hansard*, 31 July 2018, p. 18.

<sup>99</sup> Mr Gary Dawes, *Committee Hansard*, 2 August 2018, p. 41.

<sup>100</sup> Mr John Reeves Taylor, *Committee Hansard*, 3 August 2018, p. 18.

<sup>101</sup> Mr John Reeves Taylor, *Committee Hansard*, 3 August 2018, p. 18.

<sup>102</sup> Australian Dental Industry Association, *Submission 29*, p. 3.

difficult for SMEs seeking to develop medium to long-term plans to take advantage of FTAs.<sup>103</sup>

- 6.63 ADIA strongly supported the Australian Government's continued funding of the EMDG scheme for 2018-19 and the inclusion of funding for forward estimates until FY2021-22.<sup>104</sup>

However, the allocation of \$137.9 million for the scheme in the FY2018-19 budget is still lower than the \$150.4 million allocated ten years ago in the FY2008-9 budget.<sup>105</sup>

Further, the funding of \$137.9 million per year projected for the next four year means that in 2020, based on the way in which grants are paid, grant entitlements above \$40,000 will only be paid out in the order of only 20 per cent of what is owing.<sup>106</sup>

- 6.64 In KPMG's experience, the EMDG is an effective support mechanism and does help recipients accelerate their growth in new markets. For those with queries about making applications, KPMG believed Austrade continues to provide good support to applicants through its EMDG Hotline.<sup>107</sup>

In our experience and based on observations, payment processing times are now increasing, which is significantly eroding the benefit of the grant to SMEs. There has also been a decline in the final grant amount received in the second tranche payment, owing to an increase in claims received per grant year (3,771 claims in 2017 compared with 2,715 in 2013) without a corresponding increase in the budget.<sup>108</sup>

- 6.65 KPMG outlined there can be a substantial administrative burden associated with applying for this EMDG program, though changes, such as the per diem allowance for travel, have greatly reduced the number of receipts required in some areas.<sup>109</sup>

Despite this move, we note high levels of audit activity and (in some cases), the rejection of applications for reasons not supported by Austrade's

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<sup>103</sup> Australian Dental Industry Association, *Submission 29*, p. 9.

<sup>104</sup> Australian Dental Industry Association, *Submission 29*, p. 9.

<sup>105</sup> Australian Dental Industry Association, *Submission 29*, p. 9.

<sup>106</sup> Australian Dental Industry Association, *Submission 29*, p. 9.

<sup>107</sup> KPMG, *Submission 4*, p. 4.

<sup>108</sup> KPMG, *Submission 4*, p. 4.

<sup>109</sup> KPMG, *Submission 4*, p. 4.

guidelines and the EMDG legislation. The ongoing audit activity is coupled with increasingly slow responses from Austrade and delays in the finalisation of audits (when compared with previous years).<sup>110</sup>

6.66 KPMG also raised awareness of circumstances where Austrade had not provided the applicant with an “opportunity to respond to queries before finalising an audit”.<sup>111</sup>

6.67 KPMG believes the EMDG’s administrative burden and increasingly strict approach to audits risks reducing the effectiveness of the grant and Austrade needs to consider a review of the technology it uses to improve the application process.<sup>112</sup>

...the use of existing digital solutions to make it easier for applicants to collate and authenticate expense claims and for Austrade to access information and streamline assessment processes.<sup>113</sup>

## **Letters of credit as a funding alternative to the EMDG scheme**

6.68 The Managing Director of Eco Energy Group, Mr Lionel Barden, described funding as the single biggest barrier to SMEs’ export participation and proposed a funding alternative to the \$138.9 million Export Market Development Grant scheme.<sup>114</sup>

Banks have trouble lending to small business due to the large reserve required for small business lending. This is why banks use property (the lowest reserve) to lend against instead of banking the business.<sup>115</sup>

6.69 Mr Barden stated the Export Market Development Grant scheme is the key Australian Government financial assistance program for aspiring and current exporters.<sup>116</sup>

The funds are restricted and come far too late.<sup>117</sup>

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<sup>110</sup> KPMG, *Submission 4*, p. 4.

<sup>111</sup> KPMG, *Submission 4*, p. 4.

<sup>112</sup> KPMG, *Submission 4*, p. 4.

<sup>113</sup> KPMG, *Submission 4*, p. 4.

<sup>114</sup> Mr Lionel Barden-Eco Energy Group Ltd, *Submission 37*, p. 1.

<sup>115</sup> Mr Lionel Barden-Eco Energy Group Ltd, *Submission 37*, p. 1.

<sup>116</sup> Mr Lionel Barden-Eco Energy Group Ltd, *Submission 37*, p. 1.

<sup>117</sup> Mr Lionel Barden-Eco Energy Group Ltd, *Submission 37*, p. 1.

6.70 Mr Barden believed money would be more accessible with a reduction in the reserve on legitimate irrevocable Letters of Credit on export orders. Instead of providing grants the Government should offset this funding by providing insurance over loans against Letters of Credit which could then allow the Reserve Bank to reduce the reserve on Letters of Credit. The banks would then be in a position to offer loans against Letters of Credit.<sup>118</sup>

This is not a new idea. The Singapore Government has built a huge, highly successful export business through this model.<sup>119</sup>

6.71 Mr Barden proposed the Australian Government should consider supporting Letters of Credit as security because of his belief that each Letter of Credit:<sup>120</sup>

- has greater substance than property
- is safeguarded by a bank to bank transaction.
- is a short term arrangement on an order by order basis.
- amount loaned would be the cost of production or milestone of an order.
- funding transaction is completed when the product is delivered and the total payment transferred between banks.

6.72 The company could grow quickly using funding against Letter of Credit as a Rolling Line of Credit.

An irrevocable letter of credit is common in export trade and provides the "irrevocable" security against the financing. All it takes is a shift in mindset. Companies will follow the easier money and Australia's focus would soon become export oriented, led by SMEs who will react quickest.<sup>121</sup>

6.73 Mr Barden described the benefits as:<sup>122</sup>

- With the correct due diligence SMEs could access funding on a rolling line of credit
- Banks would be less exposed than on property
- There would be greater confidence by SMEs with growth in profits
- This would increase employment
- There would be a direct focus on export supporting the balance of trade

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<sup>118</sup> Mr Lionel Barden-Eco Energy Group Ltd, *Submission 37*, p. 1.

<sup>119</sup> Mr Lionel Barden-Eco Energy Group Ltd, *Submission 37*, p. 2.

<sup>120</sup> Mr Lionel Barden-Eco Energy Group Ltd, *Submission 37*, p. 1.

<sup>121</sup> Mr Lionel Barden-Eco Energy Group Ltd, *Submission 37*, p. 1.

<sup>122</sup> Mr Lionel Barden-Eco Energy Group Ltd, *Submission 37*, p. 2.

- SMEs, Government and Australia would prosper
- This is a cost neutral policy change.

## **Innovation and Science Australia supports increasing size of EMDG**

- 6.74 Innovation and Science Australia (ISA) submitted that governments can strengthen export activity by entering into new trade agreements and better capitalising on existing ones.<sup>123</sup>

ISA welcomes the Australian Government's continuing efforts to grow and strengthen its FTAs, including recently negotiated agreements with China, Japan and South Korea, along with continuing engagement with India and the efforts underway to establish new agreements with the European Union and the United Kingdom.<sup>124</sup>

- 6.75 ISA has an independent statutory board with responsibility for providing strategic whole-of-government advice on all science, research and innovation matters. In January 2018, ISA released a strategic plan *Australia 2030: prosperity through innovation* for the Australian innovation, science and research system to 2030 for consideration by Government.<sup>125</sup>

The 2030 Strategic Plan emphasises the importance of exporting to innovation in the national economy, noting the strong links between export activity and innovation at the firm level.<sup>126</sup>

- 6.76 The ISA highlighted its research for the 2030 Strategic Plan and identified the important role played in the innovation system by the Export Market Development Grants scheme. The EMDG scheme provides financial assistance for SMEs to increase international marketing and promotion expenditure to achieve more sustainable international sales and encourage businesses to enter and embed themselves in global value chains.<sup>127</sup>

EMDG recipients include many of Australia's best known exporters and the vast majority of funding recipients report the scheme is invaluable in helping them to access new markets and develop better international business and cultural understanding.<sup>128</sup>

<sup>123</sup> Innovation & Science Australia, *Submission 8*, p. 1.

<sup>124</sup> Innovation & Science Australia, *Submission 8*, p. 1.

<sup>125</sup> Innovation & Science Australia, *Submission 8*, p. 1.

<sup>126</sup> Innovation & Science Australia, *Submission 8*, p. 1.

<sup>127</sup> Innovation & Science Australia, *Submission 8*, pp. 1-2.

<sup>128</sup> Innovation & Science Australia, *Submission 8*, p. 2.

6.77 ISA's analysis of a sample of EMDG recipients found that 45 percent of the firms increased their employee numbers by at least 73 percent - equivalent to a threshold of 20 percent growth compounded over three years. Furthermore, 52 percent of the firms analysed by the ISA increased their turnover in excess of the same threshold.<sup>129</sup>

High growth rates such as these are a sign of a healthy innovation system, and ISA therefore believes further policy support is appropriate.<sup>130</sup>

6.78 In light of this, ISA made a recommendation in its 2030 Strategic Plan calling for the Australian Government to significantly increase funding support to export focussed SMEs through the EMDG scheme to further drive the success of Australian SMEs in export markets. ISA also proposes that a methodology be established to better target this funding support towards high-growth businesses.<sup>131</sup>

## Recommendation 5

6.79 **The Committee recommends that the Australian Government review the resourcing of agencies and programmes to assist Australian small and medium enterprises (SMEs) trade internationally as follows by:**

- **Reviewing the current funding arrangement for the Australian Trade and Investment Commission with a view to ensuring it is adequately funded to continue to deliver high quality services and in line with the recommendations of the report;**
- **Assessing the current funding arrangements for the Export Market Development Grant (EMDG) scheme to ensure it meets the growing demand and maintains the real value of individual grants under the EMDG scheme, including investigating strategies to better target the scheme towards high-growth SMEs; and**
- **Evaluating the potential for using improved digital technology to reduce the administrative burden of the Export Market Development Grants scheme for applicants.**

<sup>129</sup> Innovation & Science Australia, *Submission 8*, p. 2.

<sup>130</sup> Innovation & Science Australia, *Submission 8*, p. 2.

<sup>131</sup> Innovation & Science Australia, *Submission 8*, p. 2.

## Department of Industry, Innovation and Science role

6.80 To complement its specific role in advising on FTAs, the Department of Industry, Innovation and Science also works with Austrade to further assist in SME uptake of global opportunities.<sup>132</sup>

6.81 In April 2014, DIIS signed a revised Partnership Agreement with Austrade. Under the Agreement, the two agencies have committed to strengthening their collaboration to deliver economic benefits for the Australian economy. The Agreement sets out overarching principles for the relationship and key strategic priorities.<sup>133</sup>

It also facilitates the coordination and collaboration of a range of activities, providing practical support and outcomes for Australian businesses.<sup>134</sup>

6.82 In January 2016 a Memorandum of Understanding (MOU) was concluded between DIIS and Austrade setting out the general principles for the provision of shared services.<sup>135</sup>

### How DIIS assists SMEs become export ready

6.83 Research by DIIS' Office of the Chief Economist shows that innovation and export behaviour of Australian SMEs are interrelated.<sup>136</sup>

The results show that innovative Australian SMEs are 4-8 per cent more likely to be exporters, while SME exporters are 7-10 per cent more likely to be innovators (introducing new or significantly improved products and/or processes).<sup>137</sup>

6.84 DIIS submitted these 2016 results suggest that exporting induces selection into innovative activity given competition and learning associated with foreign market participation.<sup>138</sup>

6.85 DIIS administers a range of programs and policy initiatives which form part of (or supplement) the Australian Government's National Innovation and

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<sup>132</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

<sup>133</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

<sup>134</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

<sup>135</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

<sup>136</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

<sup>137</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

<sup>138</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.



Science Agenda. Several of these initiatives are aimed at building business capability and helping SMEs become ‘export ready’, and thus play an important role in helping SMEs leverage the benefits of Australia’s FTAs.<sup>139</sup>

## DIIS’s SME Export Hubs Initiative

6.86 The SME Export Hubs Initiative managed by DIIS will fund successful applicants to develop local and regional export hubs that will assist participating SMEs improve their capabilities, increase exports and create jobs.<sup>140</sup>

There is nothing in the guidelines precluding establishment of virtual export hubs, however an applicant must be able to specify the location where projects will be located.<sup>141</sup>

Export hubs will help groups of small businesses to help break down the barriers they face when they start exporting by increasing information and resource sharing.<sup>142</sup>

6.87 According to DIIS, export hubs will:<sup>143</sup>

- deliver improved local capability to increase exports, encourage growth and create jobs
- develop and implement export strategies to build on local competitive strengths and innovation potential, and are aligned with the national strategies of the Growth Centres
- provide market intelligence about export opportunities
- help small business access primary buyers and supply chains through export networking and supply chain events.
- highlight international market opportunities and identify opportunities for firms in different sectors to work together (e.g. between packaging, food, biotechnology and transport firms)
- support skills development through training and seminars.

Export hubs may use grant funding to deliver the above activities and services, and to pay for licensing fees to deliver third party services and tools

<sup>139</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 13.

<sup>140</sup> Dept. of Industry, Innovation & Science, *Supplementary to submission 31.1*, p. 2.

<sup>141</sup> Dept. of Industry, Innovation & Science, *Supplementary to submission 31.1*, p. 2.

<sup>142</sup> Dept. of Industry, Innovation & Science, *Supplementary to submission 31.1*, p. 2.

<sup>143</sup> Dept. of Industry, Innovation & Science, *Supplementary to submission 31.1*, p. 2.

to improve firm's competitiveness and export capability. Grant funding may not be used to pay Australian Government entities for their services.<sup>144</sup>

6.88 Eligible activities under the initiative can include:<sup>145</sup>

- activities associated with establishment and operation of an export hub that assists participating SMEs to improve their capabilities, increase exports and create jobs
- developing and delivering workshops, training, seminars and other events for participating SMEs in the areas of business management, workforce skills development, collaboration, innovation and export market development
- developing and implementing an export strategy focused on current or future global opportunities, building on identified competitive strengths and innovation potential of participating SMEs
- identifying emerging needs of export markets to inform and facilitate commercially focussed industry-research collaboration to address those needs
- providing market intelligence about export opportunities and facilitation of opportunities for participating SMEs to access global supply chains.

## Victorian Chamber's role in encouraging exporters

6.89 The Victorian Chamber outlined its extensive experience in supporting Victorian businesses to grow their presence in export markets. As part of this, the Chamber delivers a number of export development programs and services, including a training program to assist businesses access FTAs.<sup>146</sup>

- FTA Export Pathway Program (includes FTA Training workshops, FTA Advice Line, FTA one-on-one coaching, and Online Knowledge Centre).<sup>147</sup>
  - Since the launch of the program, the Victorian Chamber has supported more than 1,800 businesses to access the three new FTAs.
  - Overwhelmingly, the strongest interest from business relates to the Chinese-Australia FTA.

<sup>144</sup> Dept. of Industry, Innovation & Science, *Supplementary to submission 31.1*, p. 2.

<sup>145</sup> Dept. of Industry, Innovation & Science, *Supplementary to submission 31.1*, pp. 2-3.

<sup>146</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 2.

<sup>147</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 2.

- Asia Gateway Voucher Program - The Victorian Chamber is a registered provider for the Asia Gateway Voucher Program, a Victorian Government program offering funding of up to \$50,000 on a one-to-one co-contribution basis, to support Victorian businesses develop and implement market development plans to increase export and business activities with Victoria's top Asian trading partners.<sup>148</sup>
- Export documentation services - The Victorian Chamber helps businesses with all of their international customs and export documentation needs and is the only body in Victoria that is authorised to issue both Certificates of Origin and ATA Carnets. Having an independent third-party certify the origin of a good and manage compliance provides certainty and important protections to business exporters.<sup>149</sup>
- Migration services - The Victorian Chamber's migration and visa service provides consulting for corporate and individual immigration and visa matters.<sup>150</sup>
- Victoria Jiangsu Business Placement Program (VJBPP) - First launched in 2014, the Victorian Chamber's VJBPP has conducted four successful delegations to China. The structured program helps Victorian businesses develop new links and mutually productive trade and investment opportunities by placing participants with carefully selected Jiangsu business hosts. Participants benefit from training and coaching from leading Chinese professors and educators on the fundamentals of doing business with China. Other benefits include pre-qualified introductions to potential business partners or investors, introductions to key industry leaders and high level government officials, and participation in strategic networking events.<sup>151</sup>

6.90 The Manager of Economics and Industry Policy, Victorian Chamber of Commerce and Industry, Mr Hugh Horsfall, believes business chambers and associations are well placed to assist Governments to educate and promote the benefits and pitfalls of FTAs.<sup>152</sup>

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<sup>148</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 2.

<sup>149</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 2.

<sup>150</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 3.

<sup>151</sup> Victorian Chamber of Commerce and Industry, *Submission 2*, p. 3.

<sup>152</sup> Mr Hugh Horsfall, *Committee Hansard*, 30 July 2018, p. 11.

Finally, I highlight the need for an increased level of programs and support to help small businesses navigate the complex environment of trade agreements and to leverage the strengths of industry associations, like the Victorian Chamber, who've got really close links with businesses and who are trusted advisers, as a useful tool in delivering that advice and assistance.<sup>153</sup>

## Asialink Business' role in helping SMEs export to Asia

- 6.91 In its capacity as the national centre for Asia capability, Asialink Business outlined its extensive experience in supporting SMEs to expand or enter new export markets or expand their existing interests in Asian markets.<sup>154</sup>

Asialink Business does this through a number of different channels. These are tailored to meet the diverse needs of SMEs, at all stages of the export journey, from exploration to market entry and expansion.<sup>155</sup>

- 6.92 Asialink Business through its partnership with the Department of Industry, Innovation and Science, submitted it has a national mandate to build Asian capabilities across all sectors of the Australian workforce.<sup>156</sup>

- 6.93 Since its inception in 2013, Asialink Business claimed it has supported thousands of organisations around Australia, spanning large listed businesses, small and medium enterprises, industry bodies, agribusiness, local councils, state and federal government departments, and the education and not-for-profit sectors.<sup>157</sup>

- 6.94 Asialink Business' support includes assisting organisations to develop an "increased awareness of business opportunities with Asian markets, knowledge to assess opportunities appropriately and build capabilities to execute opportunities effectively".<sup>158</sup>

For instance, in 2017 alone, over 8000 individuals and organisations participated in Asialink Business' capability development programs or business forums, and many more accessed our practical research products.<sup>159</sup>

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<sup>153</sup> Mr Hugh Horsfall, *Committee Hansard*, 30 July 2018, p. 11.

<sup>154</sup> Asialink Business, *Submission 17*, p. 4.

<sup>155</sup> Asialink Business, *Submission 17*, p. 4.

<sup>156</sup> Asialink Business, *Submission 17*, p. 2.

<sup>157</sup> Asialink Business, *Submission 17*, p. 2.

<sup>158</sup> Asialink Business, *Submission 17*, p. 2.

<sup>159</sup> Asialink Business, *Submission 17*, p. 2.

## Capability development by Asialink Business

6.95 Asialink Business outlined it offers short courses, open programs and customised training programs to build Asia capability, training and upskilling SMEs in Asia-capabilities in real and practical ways. Asialink Business uses learning and development experts, with a strong background in program management, instructional design and facilitation, and also subject matter experts with deep Asian knowledge and practical business experience.<sup>160</sup>

### *The City of Sydney*

6.96 The City of Sydney engaged Asialink Business to design and deliver a series of Asia Insights Workshops, aimed at helping SMEs looking to enter markets in Asia, expand existing networks and drive future success. The workshops focus on increasing local companies' knowledge and understanding of Asian markets across a range of relevant themes covering business and cultural considerations, including:<sup>161</sup>

- doing business with China and India;
- how to enter and expand into Asian markets; and
- conducting negotiations in Asia.

### *Government of NSW*

6.97 Asialink Business also worked with the NSW's government departments to roll out a series of three half-day workshops with an ASEAN Export Focus to rural and regional clients in Byron Bay, Newcastle, Wagga Wagga, Tamworth and Wollongong.<sup>162</sup>

## Practical Asia market information: Country Starter Packs

6.98 Asialink Business highlighted it has 16 different Country Starter Packs on its website <https://asialinkbusiness.com.au/country-starterpacks> which provide a comprehensive source of information and insights on how to capture opportunities in evolving and complex markets. The Country Starter Packs

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<sup>160</sup> Asialink Business, *Submission 17*, p. 4.

<sup>161</sup> Asialink Business, *Submission 17*, p. 4.

<sup>162</sup> Asialink Business, *Submission 17*, p. 4.

cover some of largest economies in Asia, as well as providing guides on key ASEAN markets.<sup>163</sup>

Specifically targeted at SMEs, these starter packs are a go-to guide that provides a practical and comprehensive roadmap to understand opportunities and navigate different business cultures and practicalities. For example, the China Country Starter Pack provides an overview of the China-Australia Free Trade Agreement (ChAFTA), what benefits it provides for Australian services firms and what tariffs/import dues there are under ChAFTA.<sup>164</sup>

- 6.99 Asialink Business claimed more than 12,000 Country Starter Packs have been downloaded from its website and shareable app since 2015.<sup>165</sup>

### **Asialink's profiling of practical case studies**

- 6.100 The General Manager of Bravo Charlie, Mr Philip Bateman, believes the Governments needs to get more successful SMEs to tell their export stories to encourage others.<sup>166</sup>

I ask government to encourage SMEs to capture and share their stories with the world—not so much their products but who they are as people and who they are as a business, their processes, how they ship things and how they export. It is our fundamental and only competitive advantage. So it's about taking that and spending more time focusing on it.<sup>167</sup>

- 6.101 Asialink Business seeks to profile Australian businesses engaging successfully with Asia, as a way to motivate, inspire and support SMEs who may also be thinking about entering Asian markets. Businesses profiled in the case studies share their challenges, tips and stories and are available on the Asialink Business website.<sup>168</sup>

Each case study has key learnings from the profiled business and a specific story which practically narrates the successes and failures. The case studies often highlight how the business used and benefited from free trade agreements in their journey to success.<sup>169</sup>

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<sup>163</sup> Asialink Business, *Submission 17*, p. 4.

<sup>164</sup> Asialink Business, *Submission 17*, p. 4.

<sup>165</sup> Asialink Business, *Submission 17*, p. 5.

<sup>166</sup> Mr Philip Bateman, *Committee Hansard*, 30 July 2018, p. 18.

<sup>167</sup> Mr Philip Bateman, *Committee Hansard*, 30 July 2018, p. 18.

<sup>168</sup> Asialink Business, *Submission 17*, p. 5.

<sup>169</sup> Asialink Business, *Submission 17*, p. 5.

## *The Truffle & Wine Co.*

- 6.102 Asialink Business highlighted The Truffle & Wine Co. as one of its case studies.<sup>170</sup>

While success was not instantaneous for The Truffle & Wine Co., a farm based in Manjimup, 300 kilometres south of Perth, the company's focus on building product awareness, strong local relationships and smart negotiation over several years enabled it to grow Hong Kong into one of its largest export markets.<sup>171</sup>

- 6.103 Asialink Business attributed the support that FTAs with some of Australia's largest trading partners – China (ChAFTA), Japan (JAIPA) and the Republic of Korea (KAFTA) was helping drive exports for The Truffle & Wine Co.<sup>172</sup>

## *Fibre King Oryx Automation*

- 6.104 Another Asialink Business case study showcases Fibre King Oryx Automation's journey as it looked at expanding its manufacturing overseas to escape the effects of the global financial crisis and a strong Australian dollar. It was the Thailand-Australia Free Trade Agreement (TAFTA) that helped Fibre King Oryx Automation settle on Thailand ahead of Malaysia or southern China.<sup>173</sup>

The case study highlights the importance of FTAs, and how leveraging the benefits of TAFTA allowed Fibre King Oryx Automation to become a success.<sup>174</sup>

## **Market development planning**

- 6.105 Asialink Business observed SMEs often require additional support in preparing cost-effective and highly impactful market entry strategies in order to extract maximum value from FTAs. In one example, Asialink Business partnered with a cosmeceuticals business to develop their

<sup>170</sup> Asialink Business, *Submission 17*, p. 5.

<sup>171</sup> Asialink Business, *Submission 17*, p. 5.

<sup>172</sup> Asialink Business, *Submission 17*, p. 5.

<sup>173</sup> Asialink Business, *Submission 17*, p. 5.

<sup>174</sup> Asialink Business, *Submission 17*, p. 5.

international strategy, focusing on the market opportunity for their cosmeceuticals in Singapore, Hong Kong, China and Indonesia.<sup>175</sup>

This included a comprehensive analysis of market structures, industry size, consumer segments, supply chain and logistics issues, as well as insight and information on the regulatory environment.<sup>176</sup>

## **In-market support for SMEs**

- 6.106 Local councils have engaged Asialink Business to provide practical insights, guidance and support to SMEs who are looking to pilot exports to Asia. Services have included; one-on-one guidance and support workshops to assist businesses in the implementation of market development strategies, profiling and screening of potential in-market partners, guidance on distribution channels, pricing and branding strategy, and support with in-market visits and negotiations with potential in-market partners, agents of distributors.<sup>177</sup>

## **Asialink Business's role in Asia Gateway Voucher Program**

- 6.107 Asialink Business is a registered provider for the Victorian Government's Asia Gateway Voucher Program, a state program that helps small and medium Victorian businesses and organisations build their Asia capabilities and grow their export and market development skills.<sup>178</sup>

The program offers up to \$50,000 in funding (on a co-contribution basis) to assist SMEs to enter new export markets, develop and implement market development plans, and optimise and secure new growth opportunities. This innovative program is a best-practice model that may be suitable for rollout on a national scale.<sup>179</sup>

## **Public outreach and events**

- 6.108 Asialink Business has an active agenda of public events and business forums to raise awareness about the opportunities and the skills, tools and capabilities needed to harness trade opportunities in Asia. In March 2018, it

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<sup>175</sup> Asialink Business, *Submission 17*, p. 5.

<sup>176</sup> Asialink Business, *Submission 17*, p. 5.

<sup>177</sup> Asialink Business, *Submission 17*, p. 5.

<sup>178</sup> Asialink Business, *Submission 17*, p. 6.

<sup>179</sup> Asialink Business, *Submission 17*, p. 6.



undertook seminars and events on topics such as ‘Understanding the changing ASEAN consumer’ or ‘Innovation and the Digital Economy’.<sup>180</sup>

As part of these forums, SMEs shared their experiences and tips in accessing FTAs such as the AANZFTA, SAFTA, MAFTA and TAFTA. These forums were livestreamed around Australia and Asia, attracting nearly 3000 participants.<sup>181</sup>

## The role of the Department of Home Affairs in exports

6.109 According to the Department of Home Affairs, a licence is not required to export goods from Australia, however, a permit is required for some goods.<sup>182</sup>

The export of goods from Australia is controlled by laws and Government policies to:

- 1 prohibit the export of certain goods either absolutely or conditionally
- 2 adequately record Australia's international trade<sup>183</sup>

6.110 Goods that are conditionally prohibited from export may not be exported unless all necessary export permits are obtained from the relevant permit issuing agency/agencies.<sup>184</sup>

6.111 The Australian Chamber of Commerce and Industry raised its concerns about the Department of Home Affairs implementing a “Trusted Trader” (TT) scheme and that currently around 150 companies have become “Trusted Traders” and the Department wants to dramatically increase this level of participation.<sup>185</sup>

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<sup>180</sup> Asialink Business, *Submission 17*, p. 6.

<sup>181</sup> Asialink Business, *Submission 17*, p. 6.

<sup>182</sup> See: <https://www.homeaffairs.gov.au/busi/cargo-support-trade-and-goods/exporting-goods/general-information>

<sup>183</sup> See: <https://www.homeaffairs.gov.au/busi/cargo-support-trade-and-goods/exporting-goods/general-information>

<sup>184</sup> See: <https://www.homeaffairs.gov.au/busi/cargo-support-trade-and-goods/exporting-goods/general-information>

<sup>185</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 20.

6.112 The Australian Chamber supports the intent of this scheme but questions the design as the scheme and the benefits on offer. In relation to this the ACCI makes the following points:<sup>186</sup>

- While “trusted” traders may be part of this scheme, it automatically places those not in the scheme into the “untrusted” group, even though they don’t pose any participate risks.
- The scheme adds costs and compliance to companies that prior to the scheme, in general, already complied in terms of safety and regulatory compliance. Hence, it adds costs and red tape to otherwise compliant companies.
- The ACCI have argued that the design would be better if it assumed compliance for all company until they demonstrate non-compliance. That is, a demerits based scheme rather than a merits based scheme. Such a scheme in other places means points are removed from full compliance based on indiscretions rather than needing to demonstrate compliance in the first instance. Such a scheme would mean all traders were “trusted” until proven otherwise – an approach consistent with common law.
- The ACCI have also offered that the existing Certificate of Origin registration process and engagement, provides the basis for the “know your client” components necessary to create the foundations for such a scheme. The ACCI stated it would be delighted to work with the Department to improve the TT scheme – particularly for SMEs.

6.113 The ACCI submitted it is hearing “anecdotally that international buying companies are beginning to enforce TT compliance as a requirement for commercial dealings”.<sup>187</sup>

This means it is becoming a barrier to trade.<sup>188</sup>

## Export declarations

6.114 The Department of Home Affairs defined an Export Declaration as a statement made by the exporter (owner of the goods), or their agent, to the

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<sup>186</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 20.

<sup>187</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 20.

<sup>188</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 20.

Department providing information concerning the goods and the export transaction.<sup>189</sup>

Once an Export Declaration is lodged with the Department, an Export Declaration Number (EDN) is provided. Goods may not be exported, or loaded on a ship or aircraft for export, unless they have been entered for export (some exemptions apply) and the Department has given approval to export by means of a cleared status.<sup>190</sup>

## Export data

6.115 An Australian Harmonised Export Commodity Classification (AHECC) is an eight digit code used to classify goods for export. The AHECC is maintained by the Australian Bureau of Statistics (ABS) and can be accessed from its website.<sup>191</sup>

Accurate export data is highly important to the Government and the private sector for various reasons, for example:

- We use export entry data when risk assessing outbound cargo to ensure that relevant border controls are maintained and that government revenue is protected.
- Australian and overseas investors use export statistics to conduct market research and identify business opportunities.
- Export statistics are used to monitor and assess market share and trading patterns.<sup>192</sup>

## The Department of Agriculture and Water Resources' role

6.116 Mr Simon Smalley, Assistant Secretary, Strategic Trade Policy Branch, Trade and Market Access Division, Department of Agriculture and Water

<sup>189</sup> See: <https://www.homeaffairs.gov.au/busi/cargo-support-trade-and-goods/exporting-goods/general-information>

<sup>190</sup> See: <https://www.homeaffairs.gov.au/busi/cargo-support-trade-and-goods/exporting-goods/general-information>

<sup>191</sup> See: <https://www.homeaffairs.gov.au/busi/cargo-support-trade-and-goods/exporting-goods/general-information>

<sup>192</sup> See: <https://www.homeaffairs.gov.au/busi/cargo-support-trade-and-goods/exporting-goods/general-information>

Resources explained that in trade, particularly agricultural and food trade, it is the importing countries that set the rules.<sup>193</sup>

The regulation that we undertake is to ensure that product that is going into a market meets the rules that they are setting. In establishing trade for any particular commodities, we as a department negotiate protocols under which goods can go into those countries.<sup>194</sup>

- 6.117 Mr Smalley believes DAWR does not have the kind of trade development focus that other agencies have, particularly Austrade, and some of the marketing arms of the commodity groups, et cetera.<sup>195</sup>

I describe us as about enabling commodities to get into countries, and agencies like Austrade as about getting them onto retail shelves and into shopping baskets. So facilitating trade and developing trade in the market is less of our function. We're about getting it in through the regulatory pathways.<sup>196</sup>

- 6.118 Ms Barbara Cooper, Assistant Secretary, Meat Exports Branch, Exports Division, Department of Agriculture and Water Resources said the Department seeks out opinions from industry on how red meat exports are handled in FTAs.<sup>197</sup>

With the red meat—we deal through the Export Meat Industry Advisory Committee. Under that, the Australian Meat Industry Council is the representative group that we predominantly deal with...At those meetings, we have been working with the industry to try to establish what their priorities are, because they change from time to time. We would be reliant in that through the department, through Trade and Market Access.<sup>198</sup>

- 6.119 Ms Cooper explains the Department's own Export Standards Branch is responsible for negotiating more of the technical aspects of trade.<sup>199</sup>

- 6.120 Mr John Kaus, Managing Director of Karumba Livestock Exports, and the Chairman of South East Asia Livestock Services, as a live cattle exporter based in Darwin and Brisbane, he raised concerns about the charges by the

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<sup>193</sup> Mr John Smalley, *Committee Hansard*, 17 September 2018, p. 1.

<sup>194</sup> Mr John Smalley, *Committee Hansard*, 17 September 2018, p. 1.

<sup>195</sup> Mr John Smalley, *Committee Hansard*, 17 September 2018, p. 1.

<sup>196</sup> Mr John Smalley, *Committee Hansard*, 17 September 2018, p. 1.

<sup>197</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 2.

<sup>198</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 2.

<sup>199</sup> Ms John Smalley, *Committee Hansard*, 17 September 2018, p. 1.

Department of Agriculture and Water Resources (DAWR). Karumba Livestock Exports is an export depot and wharf in Karumba.<sup>200</sup>

- 6.121 Mr Kaus said SEALS, which supplies live cattle all throughout South East Asia, now pays for an independent observer to be on board each ship for each voyage into Malaysia, Indonesia, Brunei, Sabah, Sarawak, Thailand and the Philippines.<sup>201</sup>

But unfortunately...the Minister for Agriculture imposed another burden for the importers and also the producers and the exporters by putting into place independent observers on ships. We operate three small ships that carry about 2,000 head at a time. The cost of these independent observers is probably about \$25,000 for one voyage, which is a huge cost to small operators like us. It's great to see the trade going, but then, on the other hand, they put a big burden on the industry, and it will fall back to the producers, because someone's got to pay for it. The producers will be affected and so will the importers.<sup>202</sup>

## Development of a single window for trade

- 6.122 Trade consultants KPMG admitted one of the great challenges facing SMEs is ascertaining which of the raft of trade information, products and support services available will provide them with the "greatest benefit and best advice to suit their export goals".<sup>203</sup>

In our view...simply expanding the volume of education provided will not overcome this challenge. Rather, a co-ordinated 'single trade window' approach by governments, industry associations and professional advisors, supported by advanced technology, will provide greater benefit to SMEs' ability to access FTAs.<sup>204</sup>

- 6.123 Looking to the future, the Department of Foreign Affairs and Trade submitted that it is also working with the Department of Home Affairs to progress the development of a single window for trade. DFAT stated that SMEs are being consulted as part of the single window design process.<sup>205</sup>

<sup>200</sup> Ms John Kaus, *Committee Hansard*, 4 October 2018, p. 5.

<sup>201</sup> Mr John Kaus, *Committee Hansard*, 4 October 2018, p. 5.

<sup>202</sup> Mr John Kaus, *Committee Hansard*, 4 October 2018, p. 5.

<sup>203</sup> KPMG, *Submission 4*, p. 6.

<sup>204</sup> KPMG, *Submission 4*, p. 6.

<sup>205</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 13.

A single window would transform the Australian international trade environment and allow for seamless and integrated interaction between Government and SMEs by creating a single point of contact with all regulatory agencies involved in trade.<sup>206</sup>

- 6.124 The Australian Chamber of Commerce and Industry submitted it is heartened by the effort of the Australian Government to provide \$10.5 million in 2018 -19 to the Department of Home Affairs to “transform and modernise Australia’s international trade supply chain to deliver more efficient and secure trade processing”.<sup>207</sup>

This will be dedicated in large part to the completion of an initial business case to provide a ‘single window’ for international trade documentation, creating a system that is seamless, digital, automated and user - friendly.<sup>208</sup>

- 6.125 However, the ACCI outlined that it is important that the ‘single-window’ approach is developed with the assistance of peak bodies and industry members, so as to ensure that the functional aspects of the program does not obstruct current practice. ACCI would welcome further collaboration to develop and promote simple online tools for SMEs wishing to take advantage of FTAs.<sup>209</sup>

- 6.126 The Business Manager at Queensland mineral water supplier Jacob's Well Noosa, Mrs Natalie Skrepetis, admitted as a relatively new SME, she was welcoming any information or guidance about potential export opportunities.<sup>210</sup>

...we need some sort of a centralised information system where you can look up each country. Simplification: is that at all possible? Especially for people like me, it's very complicated.<sup>211</sup>

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<sup>206</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 13.

<sup>207</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 9.

<sup>208</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 9.

<sup>209</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 9.

<sup>210</sup> Mrs Natalie Skrepetis, *Committee Hansard*, 24 July 2018, p. 21.

<sup>211</sup> Mrs Natalie Skrepetis, *Committee Hansard*, 24 July 2018, p. 21.

## Export Finance and Insurance Corporation's role in trade

- 6.127 Export Finance and Insurance Corporation (Efic) submitted that legislative changes enacted in September 2017 enable Efic to lend directly to a wider range of SMEs, including tourism operators, online businesses, exporters of intellectual property and other related rights, and businesses engaged in overseas direct investment.<sup>212</sup>

Efic has purpose-built lending facilities for SMEs, including an online portal – EficDirect – for applications, giving Australian SME exporters quick and easy access to trade finance. Efic provides financial support across all SME sectors and to multiple export destinations. Since 2014, Efic has supported 353 Australian SMEs with exports worth over \$2.9 billion to 77 countries.<sup>213</sup>

- 6.128 Efic and its staff of about 100 have helped 91 companies export to the FTA markets in Japan, Korea, China and the ASEAN economies since 2014, with contracts amounting to \$488 million in value.<sup>214</sup>

- 6.129 Mr John Pacey, Efic's Chief Credit Officer, highlighted Efic only enters where there are gaps in the financing market, especially for SMEs; and it won't compete with the banks.<sup>215</sup>

SMEs often are very time poor. They often lack the management depth or resources of a big company. We find banks have certain expectations around preparation of financial information, and that can be a challenge for SMEs to deliver and to meet...Often our clients will have a bank relationship, and a good bank relationship, but the bank may not be prepared to give them that additional finance they need to complete an export contract. Or they may like to bank the domestic business but are finding that going to a particular emerging market is a little bit challenging for them. So that might be where we step in. And there are other customers who we deal with who don't have any bank relationship at all. Efic is effectively their introduction to having a relationship with a financial institution. We try to get them to a point where the bank will replace Efic—whether that is in six months or 18 months.<sup>216</sup>

<sup>212</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 13.

<sup>213</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 13.

<sup>214</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 13.

<sup>215</sup> Mr John Pacey, *Committee Hansard*, 2 August 2018, p. 25.

<sup>216</sup> Mr John Pacey, *Committee Hansard*, 2 August 2018, p. 25.

- 6.130 Mr John Hopkins, Efic's Chief Operating Officer, and General Counsel, explained Efic's approach to risk and how it charges its clients.<sup>217</sup>

...obviously we base our charge on the risk we are taking, like any financial institution would. So our rate might not be the most competitive compared to the banks, but it is the rate that is appropriate for the financing that the customer is looking for. Unfortunately, you won't find many of our customers coming to you saying Efic is a cheap source of funds. That is not our role. Our role is to provide financing when others won't. We don't charge credit card rates; we are very appropriate and we are very conscious to maintain rates that are both commercially sensitive...<sup>218</sup>

- 6.131 Mr Ross McKinnon, Chairman and Owner, GJR Technologies Pty Ltd trading as Grabba International, outlined the company's disappointment with Efic not being able to support its multi-million dollar export to the United Arab Emirates with a million dollar letter of credit due to Efic's concerns about UAE law and a termination clause in the contract.<sup>219</sup>

We approached Efic and Efic turned us down because they didn't understand the UAE law. We engaged an English [law] firm and we paid US\$50,000 to make sure the contract was really good...With the termination clause they could terminate for any reason, but that still meant they [the UAE importer] were obligated to pay...If we could have gotten a letter of credit a lot easier, we could have funded those component purchases using our letter of credit, made the goods, shipped them and then been paid. We've received money from the UAE from that, so Efic's fears were unfounded.<sup>220</sup>

- 6.132 Mr Pacey denied Efic was too risk averse detailing the UAE was an export market that Efic have been "very active in over a number of years".<sup>221</sup>

...so we do have a risk appetite for transactions in that market. Sometimes we see unusual wording in bonding transactions, and we have to make judgement calls about whether that wording is something we can accept. For example, a contract may have termination for convenience. We will then look at that clause and see whether our customer is going to be compensated for that or it is so one-sided that it is probably not a risk that should be taken...So we don't just say no to something. Often there is negotiation between our

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<sup>217</sup> Mr John Hopkins, *Committee Hansard*, 2 August 2018, p. 25.

<sup>218</sup> Mr John Hopkins, *Committee Hansard*, 2 August 2018, p. 25.

<sup>219</sup> Mr Ross McKinnon, *Committee Hansard*, 23 July 2018, p. 7.

<sup>220</sup> Mr Ross McKinnon, *Committee Hansard*, 23 July 2018, pp. 7-8.

<sup>221</sup> Mr John Pacey, *Committee Hansard*, 2 August 2018, p. 26.



customer and their customer as to the bond wording, and we try to find a solution wherever we can.<sup>222</sup>

6.133 Efic outlined that its loans fall under three broad categories and their requirements:<sup>223</sup>

- Small Business Export Loan (SBEL) – A fast and easy online application process for businesses which need funds for export transaction[s]. The loan can be from \$20,000-\$350,000, and is available to businesses with an annual turnover of between \$250,000 and \$10 million.
- Export Contract Loan (ECL) – A flexible loan structure aligned to business cashflow that can be drawn for export-related transaction[s]. The loan can be upwards of \$100,000, and is available to businesses with an annual turnover of over \$250,000.
- Export Line of Credit (ELOC) – A line of credit that can be drawn and repaid multiple times for export-related transaction[s] during the loan term. The loan can be upwards of \$100,000, and is available to businesses with an annual turnover of over \$250,000.

6.134 Efic also described the range of bonds, which typically take the form of performance bonds and warranty bonds:<sup>224</sup>

- Performance Bonds give the buyer of a product or service assurance that if the exporter doesn't meet their obligations under a contract the buyer can call on the bond to reduce its losses.
- Warranty Bonds protect a buyer from loss if the exporter doesn't meet their contractual warranty obligations after the contract is completed.
- Efic can also offer Advance Payment Bonds, which provide a buyer with security for their advance payment under an export-related contract.
- Bonds are available for businesses with an annual turnover of over \$250,000, and can be upwards of \$100,000.

6.135 Efic offered details on its guarantees that generally fall under three product categories and can be upwards of \$100,000 and are available to businesses with an annual turnover of over \$250,000:<sup>225</sup>

- Export Finance Guarantee (EFG) – This can be provided to a bank to guarantee a loan to an overseas buyer to help them with the purchase of

<sup>222</sup> Mr John Pacey, *Committee Hansard*, 2 August 2018, p. 26.

<sup>223</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 1.

<sup>224</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, pp. 1-2.

<sup>225</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 2.

capital equipment or services from an Australian exporter. Efic's export finance guarantees can complement loans or guarantees provided by commercial banks, other export credit agencies and multilateral agencies for large overseas projects.

- Documentary Credit Guarantee (DCG) – If a bank is unwilling to take on the risk of non-payment by providing a letter of credit to an exporter, Efic's documentary credit guarantee can help the exporter protect their export revenue and finance new export activity, by assuming the credit risk for the transaction.
- Working Capital Guarantee (WCG) – A working capital guarantee can be provided to an exporter's bank if the exporter doesn't have the assets that are required as security to approve further working capital finance. Our guarantee provides security to the exporter's bank, allowing them to lend the exporter the additional working capital they need to finance an export contract, multiple export contracts with different buyers or to finance their involvement in an export related global supply chain.<sup>226</sup>

6.136 Efic detailed that by volume, its most commonly provided product in financial year 2017-18 was the Small Business Export Loan (SBEL). The products that accounted for the most value in financial year 2017-18 were the various forms of bonds that Efic offers.<sup>227</sup>

Our SBEL is an unsecured loan solution with an easy online application and fast approvals for businesses with a turnover of more than \$250,000.<sup>228</sup>

If a business needs finance to support its export transactions, and its bank is unable to help, the loan could provide the company with the necessary funds to satisfy cashflow needs.<sup>229</sup>

6.137 A business must have a turnover of between \$250,000 and \$10 million, according to Efic, and have been trading for at least two years to be eligible for a SBEL.<sup>230</sup>

On a client basis, 45.6 per cent of Efic's clients in FY17-18 received SBELs. In terms of transactions, which can occur multiple times for the same client in a

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<sup>226</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 2.

<sup>227</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 2.

<sup>228</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 2.

<sup>229</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 3.

<sup>230</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 3.

year if they apply or draw down on a facility more than once, SBELs accounted for 32.7 per cent of the transactions processed by Efic in FY17-18.<sup>231</sup>

**Table 6.2 Efic Products Offered to SMEs in FY2017-18**

<b>Efic Products</b>	<b>CSPF* businesses supported</b>	<b>SME businesses supported</b>	<b>CSPF trans-actions</b>	<b>SME trans-actions</b>	<b>CSPF value</b>	<b>SME value</b>
Bond	0	21	0	81	\$0	\$76,381,773
DCG	0	1	0	1	\$0	\$2,055,362
Direct Loan	1	0	1	0	\$9,936,589	\$0
ECL	0	35	0	38	\$0	\$39,196,956
ELOC	0	25	0	27	\$27	\$22,953,680
EWCG	0	15	0	17	\$0	\$18,811,910
ODI**	0	1	0	1	\$0	\$1,000,000
SBEL	0	73	0	83	\$0	\$11,614,604
RPA#	1	1	4	1	\$9,205,716	\$85,921
<b>Total##</b>	<b>2</b>	<b>172</b>	<b>5</b>	<b>249</b>	<b>\$19,142,305</b>	<b>\$175,100,196</b>

Source: Export Finance and Insurance Corporation, *Supplementary to submission 12.1, Appendix, p. 8*. \*CSPF is Corporate, Sovereign & Project Finance. \*\* ODI is Overseas Direct Investment. #RPA is Risk Participation Agreement. ##Total clients supported for CSPF and SME is 160 but adds up to 174 in table above because a client may use multiple products or in the case of ADB be a client of both CSPF and SME.

## Case study of Lee Mathews' use of Efic's SBEL to export

6.138 Efic detailed a case study of how Efic's Small Business Export Loan (SBEL) had assisted Ms Lee Mathews become a clothes fashion exporter. Ms Mathews had grown her business from a small store in Newport in 2000, to eight stores across Australia and an online store.<sup>232</sup>

6.139 According to Efic, a director at the company Mr Stephen Rae, explained that domestic growth was slow so the business took their first step to global

<sup>231</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 4.

<sup>232</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 3.

growth, by taking their collection to Paris Fashion Week, to showcase their collection.<sup>233</sup>

- 6.140 The first international sale was to a UK department store, which then leads to further sales in Japan, according to Efic. Mr Rae said the initial exports were at a level that the business could finance itself but in a short period of time, exports were heading towards becoming 30 per cent of the business and required extra finance to support this growth.<sup>234</sup>
- 6.141 Mr Rae explained historically the business did not have financial support through the banks owing to the challenge that many banks require security which adds a level of complexity. Mr Rae stated banks tend to focus solely on balance sheet, and if you're a business that is growing and always reinvesting its money in the business and growth, then the balance sheet isn't the best reflection of the business' growth cycle.<sup>235</sup>
- 6.142 Mr Rae then met with Efic about finance support for a significant increase in orders from two of the largest international online clothing stores. Initially, the business applied to Efic for a Small Business Export Loan which was approved against two purchase orders pre-shipment that supported the order delivery.<sup>236</sup>
- 6.143 With extremely positive sales growth projected over the next year, Mr Rae worked with Efic to set up a \$500,000 line of credit which he described, according to Efic, as a game changer and an essential factor in the business' export success.<sup>237</sup>

### **Case study of Cassegrain's use of an Efic Export Contract Loan**

- 6.144 A company able to utilise Australia's network of FTAs, according to Efic, was Cassegrain, a multi-award winning winemaking company based in Port Macquarie, NSW.<sup>238</sup>

In response to higher demand, Cassegrain wanted to increase its sales to Japan and China. In order to realise this potential growth, however, Cassegrain

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<sup>233</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 3.

<sup>234</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 3.

<sup>235</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 3.

<sup>236</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 3.

<sup>237</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 3.

<sup>238</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 13.

needed working capital to pay suppliers and keep production running smoothly.

- 6.145 Efic provided the business with a \$500,000 Export Contract Loan to help deliver on growing export contracts and to invest in its manufacturing capacity.<sup>239</sup> An Export Contract Loan is a direct loan available to SME exporters to provide working capital finance for a specific export-related contract.<sup>240</sup>

Faced with growing demand from buyers in Japan and China, Cassegrain was worried about matching product supply to the purchase orders it was receiving.<sup>241</sup>

- 6.146 According to the Sole Director of Cassegrain, Mr John Cassegrain, the wine industry has a significant lag phase, as the harvest cycle doesn't necessarily align with demand for product and the lead time from production to supply can vary significantly.<sup>242</sup>

For the higher quality wines, the grapes mature in barrels prior to bottling and distribution, meaning a longer lead time on the product supply. This means that Cassegrain has to invest in manufacturing its wines before receiving orders, to have sufficient product to fulfil a contract when it comes in.<sup>243</sup>

- 6.147 In order to realise its potential growth in Japan and China, Cassegrain needed working capital from Efic to pay suppliers and keep production running smoothly.<sup>244</sup>

## **SME's awareness of Efic's financial services**

- 6.148 The Relationship Manager of the ANZ Business Bank on the Sunshine Coast, Queensland, Mr Michael Clauson, sees room for improvement in mainstream banks' relationships and information sharing with Efic and the time it takes the export credit agency to provide guarantees or loan approvals.<sup>245</sup>

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<sup>239</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 13.

<sup>240</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 6.

<sup>241</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 5.

<sup>242</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 6.

<sup>243</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 6.

<sup>244</sup> Export Finance and Insurance Corporation, *Supplementary to submission 12.1*, p. 6.

<sup>245</sup> Mr Michael Clauson, *Committee Hansard*, 24 July 2018, p. 20.

We are obviously doing our own credit assessment on the client. I know that there is some information sharing between the Clean Energy Finance Corporation and the bank and getting them to a mainstream bank. If that could happen on the Efic from as well it should help speed up the process.<sup>246</sup>

- 6.149 The Sunshine Coast Council submitted whilst many large businesses and established exporters would be familiar with the work of Efic, as Australia's main export credit agency, and the financial assistance programs it offers, many small and medium businesses would have trouble identifying the organisation or be unfamiliar with its work.<sup>247</sup>

For small business, Efic has a Small Business Export Loan. By providing this unsecured government-backed loan to SMEs with a gross turnover of more than \$250K, businesses have additional access to credit that they would not have otherwise been able to acquire.<sup>248</sup>

- 6.150 The Mayor of Hume City Council in northern Melbourne, Councillor Geoff Porter, believes Efic should utilise the close business connections local councils have to help promote their financial services to SMEs.<sup>249</sup>

My ears pricked at Efic. I've never heard of them, and I'm just wondering whether that's something where you might recommend that Efic get this information out to, particularly from my point of view, local councils, because our economic development team are great distributors of information to the local businesses, particularly with organisations such as NorthLink and La Trobe, really big hubs, trying to promote all the good things that are happening not just in food and beverage but in systems manufacturing... If we could get that information, council would certainly make sure that it gets distributed to the local industries, and they can take it from there as well.<sup>250</sup>

- 6.151 The Australian Small Business and Family Enterprise Ombudsman Ms Kate Carnell is surprised by the lack of awareness by SMEs of Efic's financial services from the research done by ASBFEO into a range of areas.<sup>251</sup>

We recently released an export-to-capital report on small and medium businesses and their problems getting access to capital to expand their

<sup>246</sup> Mr Michael Clauson, *Committee Hansard*, 24 July 2018, p. 20.

<sup>247</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>248</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>249</sup> Councillor Geoff Porter, *Committee Hansard*, 30 July 2018, p. 11.

<sup>250</sup> Councillor Geoff Porter, *Committee Hansard*, 30 July 2018, p. 11.

<sup>251</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 2.

businesses. We were pretty surprised how few of them knew who Efic was. It wasn't just really little businesses. Even quite larger, family-sized businesses that were looking for capital to help with export didn't have a clue who Efic was, which is a problem...we need to have another look at how we get information to small and medium businesses in Australia.<sup>252</sup>

- 6.152 The Sunshine Coast Council believes Efic needs to raise the awareness of its services to SMEs.

A broader understanding of the role that Efic plays within export financing could significantly impact the decision-making of small and medium-sized enterprises, knowing that government-backed loans could alleviate much of the potential cash-flow and financial risks associated with starting export operations.<sup>253</sup>

- 6.153 Mr John Hopkins, Chief Operating Officer, and General Counsel, of the Export Finance and Insurance Corporation detailed that Efic have an origination team, "a sales team, who go out and actively canvass for opportunities" to provide finance on commercial terms.<sup>254</sup>

We obviously have a database of contacts of businesses who have expressed interest in receiving finance, and we go through—our marketing plan contains outreach programs, via emails and other ways of communication, to reach out to those businesses. We prepare communications to those businesses about export finance opportunities.<sup>255</sup>

- 6.154 Mr Hopkins explained how these services are promoted to exporters on a state and territory level.

At an individual state level, our individual originators within states have relationships with chambers of commerce in the various areas. They also have relationships with state government. So, for example, here in New South Wales, we've got a relationship with Jobs for New South Wales, and we work closely with the various agencies within the various states to make people aware of Efic's offering and ensure that they have the opportunity to come to us if they need to.<sup>256</sup>

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<sup>252</sup> Ms Kate Carnell, *Committee Hansard*, 15 October 2018, p. 2.

<sup>253</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>254</sup> Mr John Hopkins, *Committee Hansard*, 2 August 2018, p. 24.

<sup>255</sup> Mr John Hopkins, *Committee Hansard*, 2 August 2018, p. 24.

<sup>256</sup> Mr John Hopkins, *Committee Hansard*, 2 August 2018, p. 24.

6.155 A HSBC study *Exporting for growth, the SME perspective* cited by the Sunshine Coast Council concluded that amongst surveyed SME's, 75 per cent of the businesses who considered exporting would be further encouraged to do so if they could access additional financial incentives/capital.<sup>257</sup>

Efic could play a greater role working alongside Austrade, as well as establishing closer partnerships with established financial institutions in helping businesses gain the capital required to hedge many of the risks associated with export operations.<sup>258</sup>

## Recommendation 6

6.156 The Committee recommends that the Australian Government makes its free trade agreements (FTA) more user-friendly for Australian small and medium enterprises (SMEs) by:

- Developing closer linkages between the Export Finance and Insurance Corporation (Efic) and municipal councils and local chambers of commerce so their networks can help promote Efic's services to Australian SMEs; and
- Establishing a 'single trade window' for SME exporters to guide them to education, products and services that meet their needs, and improve the access of SMEs to a centralised source of trade resources, from government agencies such as the Department of Foreign Affairs and Trade, Australian Trade and Investment Commission, Department of Home Affairs, Department of Agriculture and Water Resources, Export Finance and Insurance Corporation, Department of Industry, Innovation and Science, and the Department of Jobs and Small Business.

## Private sector trade finance

6.157 Trade consultants KPMG praised the efforts of ANZ Banking Group in the range of advice and assistance provided by various leading Australian banks on the financial aspects of export trade and considerations that support an

<sup>257</sup> Sunshine Coast Council, *Submission 9*, p. 4.

<sup>258</sup> Sunshine Coast Council, *Submission 9*, p. 4.



assessment of whether an SME is ready to export. The ANZ's advice is accessible at <https://betradeready.anz.com/>.<sup>259</sup>

In particular, we note the work of ANZ in this area and, specifically, the development in partnership with the Export Council of Australia of its free 'Be Trade Ready' digital tool.<sup>260</sup>

- 6.158 Mr Michael Clauson, Relationship Manager, ANZ Business Bank on the Sunshine Coast outlined that the bank will promote new FTAs to its clients, especially as the ANZ has got representation throughout Asia.<sup>261</sup>

...it was promoted, saying: 'These are available to clients. Here's some information about them.' We shared that with our client base—ANZ clients and potential new clients. I generally play in small to medium business—\$10 million turnover or less—on the Sunshine Coast. I've had clients who could take advantage of them, but I haven't had a client who has.<sup>262</sup>

- 6.159 Mr Clauson indicated the bank will take into consideration the skills and experience of the people running the business when seeking finance to support their export ambitions.<sup>263</sup>

We have to make a judgement call on whether they have the capability to execute their plan. Obviously security helps, but that's not the main reason we lend money. Firstly, they've got to be able to execute. Secondly, do they have a track record? If they want to export, they have to understand that it's hard. It's clearly hard, from the experience in this room. So for a small business to start doing it is going to be very difficult. We have to help them along that journey. As a bank, we are there to say, 'These are the challenges you are going to face.' ...We definitely lend to these kinds of businesses. We will lend to businesses in Australia. There is the Efic branch as well, which also helps the banks get more money out the door to help these businesses.<sup>264</sup>

- 6.160 Mr Peter Petersen, the Senior Business Banking Manager, at National Australia Bank, said regional Australia was important for the NAB.<sup>265</sup>

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<sup>259</sup> KPMG, *Submission 4*, p. 6.

<sup>260</sup> KPMG, *Submission 4*, p. 6.

<sup>261</sup> Mr Michael Clauson, *Committee Hansard*, 24 July 2018, p. 6.

<sup>262</sup> Mr Michael Clauson, *Committee Hansard*, 24 July 2018, p. 6.

<sup>263</sup> Mr Michael Clauson, *Committee Hansard*, 24 July 2018, p. 14.

<sup>264</sup> Mr Michael Clauson, *Committee Hansard*, 24 July 2018, p. 14.

<sup>265</sup> Mr Peter Petersen, *Committee Hansard*, 4 October 2018, p. 4.

...from a bank perspective, rural and agriculture is a big part of our business, and we are certainly putting a lot of resources in it, as I'm sure a lot of the other banks are as well. We are lending a lot of resources in rural and provincial town and actually putting the horse power behind it as well, in terms of decision-making capacity around funding requirements. So we're certainly here for the long haul.<sup>266</sup>

- 6.161 Mr Petersen reflected on some of the deals he has done in North Queensland over the past 10 years in towns like Bundaberg, Gladstone, Rockhampton and Mackay, and on how the support from Trade and Investment Queensland for exporters has helped with finance.<sup>267</sup>

...a lot of people who are looking to get into the export market are looking for financial assistance. Some feedback in terms of Trade and Investment Queensland: for the people that have gone to Trade and Investment Queensland and used those resources and then come to a financier, it has certainly expedited those transactions; it's helped the whole process along. So I'm a big advocate for TIQ.<sup>268</sup>

## Government's FTA information seminars

- 6.162 One component of the Government's outreach is the FTA information seminar series. Between March 2015 and April 2018, around 4,000 business representatives attended one of 100 FTA information seminars delivered by Austrade and DFAT.<sup>269</sup> Austrade ran its 109th and 110th FTA seminar in early December 2018.<sup>270</sup>

Many of the attendees were SME representatives. These seminars have been held in all states and territories, often in regional locations, and are continuing. Austrade and DFAT state and territory offices support the FTA promotion activities of the state and territory governments, as well as draw on their networks of business-related contacts to identify local case study speakers and promote the Australian Government's seminars and other outreach activities.<sup>271</sup>

<sup>266</sup> Mr Peter Petersen, *Committee Hansard*, 4 October 2018, p. 4.

<sup>267</sup> Mr Peter Petersen, *Committee Hansard*, 4 October 2018, p. 4.

<sup>268</sup> Mr Peter Petersen, *Committee Hansard*, 4 October 2018, p. 4.

<sup>269</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 10.

<sup>270</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 1.

<sup>271</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 10.

6.163 Mr Todd Miller, the General Manager of International Trade, at the Department of Trade, Tourism and Investment, South Australia, had welcomed the eight FTA seminars held across South Australia.<sup>272</sup> According to Austrade, 261 people attended those seminars in Adelaide, Renmark, Kadina, Port Lincoln, Mount Gambier and Murray Bridge.<sup>273</sup>

In terms of one thing for FTAs and SMEs, there's been an awful lot of work done at the Australian end with the FTA seminars that have been around Australia.

There are probably a couple areas of gap that we could talk to the FTA seminar people about in reference to the regions.<sup>274</sup>

6.164 DFAT's analysis of the FTA seminars delivered in 2016-17 showed satisfaction with the seminar series across all audience segments. Attendees report an increased awareness and understanding of North Asia FTAs after attending the seminars. In a survey of participants at the seminars held in 2016-17, 85 per cent of respondents agreed that all (41 per cent) or most (44 per cent) of their objectives were met by attending a seminar. This was an increase from 73 percent in 2015-16. Over 47 per cent of respondents said they would recommend the seminar to a peer or colleague, achieving a Net Promoter Score, which is a management tool used to gauge the loyalty of client relationships, of +32, up from +26 in 2015-16, which DFAT regarded as a strong result.<sup>275</sup>

Furthermore, Austrade closely engages industry associations about FTAs, including leveraging their networks to raise awareness and utilisation of Australia's trade agreements.<sup>276</sup>

6.165 Austrade and DFAT also engage in third-party FTA outreach activities, such as keynote or panel speakers at industry events. For instance, Austrade and DFAT representatives presented at several professional development events for customs brokers and freight forwarders held around Australia in 2017.<sup>277</sup>

<sup>272</sup> Mr Todd Miller, *Committee Hansard*, 3 August 2018, p. 26.

<sup>273</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 1.

<sup>274</sup> Mr Todd Miller, *Committee Hansard*, 3 August 2018, p. 26.

<sup>275</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 10.

<sup>276</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 10.

<sup>277</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 10.

## In-market activities by Government

- 6.166 To stimulate offshore demand, Austrade and DFAT deliver in-market activities to inform customers of Australian products of the benefits of the FTAs. Examples include Australia's largest-ever trade mission – Australia Week in China – led by then Trade Minister Steven Ciobo MP in April 2016 and the Access China delegation by then Assistant Trade Minister Keith Pitt MP in October 2016.<sup>278</sup>

## Government hotlines and mailboxes for exporters

- 6.167 DFAT's North Asia FTA Helpdesk offers a phone hotline and email service where SMEs and members of the public, including those exporting for the first time, can contact FTA experts with specific questions or issues. DFAT works with businesses, national and state chambers of commerce and peak bodies to improve understanding and utilisation of these FTAs and ensure the public receives consistent and accurate advice.<sup>279</sup>

- 6.168 Ms Barbara Cooper, Assistant Secretary, Meat Exports Branch, Exports Division, Department of Agriculture and Water Resources explained the best departmental contacts for businesses or exporters seeking information or assistance would be through the department's website.<sup>280</sup>

Our websites provide contacts. You would get telephone numbers et cetera. There's not a hotline for exporters. There is a generic number for potential clients or for queries coming through the department. They would be triaged and then referred to the appropriate party.<sup>281</sup>

- 6.169 Mr Simon Smalley, Assistant Secretary, Strategic Trade Policy Branch, Trade and Market Access Division, Department of Agriculture and Water Resources outlined how the department ensures exporters can speak with the people most able to assist with queries.<sup>282</sup>

<sup>278</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 10.

<sup>279</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 11.

<sup>280</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 9.

<sup>281</sup> Ms Barbara Cooper, *Committee Hansard*, 17 September 2018, p. 9.

<sup>282</sup> Mr Simon Smalley, *Committee Hansard*, 17 September 2018, p. 9.

There is a client contact phone number and a service that we provide as a consolidated service that triages the calls and then passes them to the various divisions.<sup>283</sup>

## Government's publications and online resources

6.170 The Government has established several online platforms provide additional FTA-related information:<sup>284</sup>

- DFAT's principal FTA website ([www.fta.gov.au](http://www.fta.gov.au)) contains information on Australia's existing FTAs and current FTA negotiations to assist businesses and the Australian community to understand these agreements and their implications. The website also provides information on how interested members of the public and stakeholders can make submissions on current and prospective negotiations.
- The Austrade website ([www.austrade.gov.au/fta](http://www.austrade.gov.au/fta)) features factsheets, guides and videos of companies succeeding in FTA markets as well as broader information to further support for Australian exporters, including useful links to FTA seminars, relevant DFAT sites and the FTA Portal. Additionally, the Austrade Toolkit ([toolkit.fta.gov.au](http://toolkit.fta.gov.au)) houses easily downloadable FTA presentations, and information and educational tools.
- The FTA Portal is a website specifically developed by DFAT to assist SMEs in understanding the benefits and requirements of FTAs.

6.171 The Export Council of Australia suggested some concrete steps the Government could do with linking its online information on trade from various departments would improve FTA utilisation.<sup>285</sup>

Better linking government systems would enable technology-based solutions. Linking the Department of Foreign Affairs and Trade's (DFAT) FTA Portal with the Department of Home Affairs' (Home Affairs) and Department of Agriculture and Water Resources' (DAWR) systems could make it easier for Australian businesses to understand they may be entitled to preferential tariffs.<sup>286</sup>

<sup>283</sup> Mr Simon Smalley, *Committee Hansard*, 17 September 2018, p. 9.

<sup>284</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 12.

<sup>285</sup> Export Council of Australia, *Submission 24*, p. 2.

<sup>286</sup> Export Council of Australia, *Submission 24*, p. 2.

- 6.172 The Director of a meat exporter, Cory Johnston (Aust) Pty Ltd, Mr Peter Shearer, believed more work could be done to make government websites with trade information easier to navigate.<sup>287</sup>

Regarding the resources on websites for FTA agreements, at the end of last week I was looking for the Philippines [ASEAN-Australia-New Zealand Free Trade Agreement], because we're trying to deal with a couple of guys there. The websites are not that intuitive. What I find a lot with government websites in particular is that they just they don't flow. You don't seem to be able to get where you want to go easily. It's just not useful. It's not user friendly.<sup>288</sup>

## FTA Portal

- 6.173 The FTA Portal (ftaportal.dfat.gov.au), according to DFAT, promotes utilisation of Australia's FTAs by enabling prospective and existing importers and exporters to explore how they can benefit from Australia's FTAs.<sup>289</sup>

- 6.174 Mr Todd Mercer, Assistant Secretary—FTA Policy and Implementation Branch, DFAT explained the department was very proud of the FTA portal, which is a website about FTAs launched in 2016 and attracting more than 2000 users each week.<sup>290</sup>

It's something which continues to grow. It's essentially a resource for business people to check, for example, which tariff would apply if there was a preference. We've expanded it to the point where all of our FTAs are up there. It has a comparison function. One of the issues which come up occasionally is that there can be confusion about competing FTAs... The last thing I'd say about the portal is that initially it focused on goods trade, but we're in the middle of expanding it to cover all services aspects of all our FTAs.<sup>291</sup>

- 6.175 KPMG welcomed the FTA Portal for enabling exporters and importers to access free information regarding tariffs under Australia's FTAs and a step-by-step system to assess whether particular products are likely to satisfy the requirements of particular FTAs.<sup>292</sup>

<sup>287</sup> Mr Peter Shearer, *Committee Hansard*, 23 July 2018, p. 22.

<sup>288</sup> Mr Peter Shearer, *Committee Hansard*, 23 July 2018, p. 22.

<sup>289</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 12.

<sup>290</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 2.

<sup>291</sup> Mr Todd Mercer, *Committee Hansard*, 25 June 2018, p. 2.

<sup>292</sup> KPMG, *Submission 4*, p. 5.

It features a sophisticated tariff finder that shows the reduction in tariffs over time, a step by-step guide to determine whether exports or imports meet a given FTA's rules of origin, trade data on individual markets, and relevant links to help businesses make trade decisions. The Portal helps SMEs overcome the so-called 'noodle bowl' effect of overlapping FTAs with a tool that allows them to compare FTAs and choose the one that offers the greatest benefits. New FTAs will be added to the Portal as they enter into force.<sup>293</sup>

6.176 The Australian Chamber of Commerce and Industry submitted it welcomed the efforts by the Australian Government to support increased understanding of Preferential Trade Agreement content.<sup>294</sup>

6.177 The ACCI highlights how the DFAT 'FTA Portal' is a good example of collaboration between government and industry to develop a widely accessible tool that improves the accessibility of the PTA benefits to businesses.

The success of this tool indicates that improving education (particularly amongst SMEs) with respect to PTA's, is a viable method of reducing Non-Tariff Barriers.<sup>295</sup>

6.178 The departments of Industry, Innovation & Science (DIIS) and of Jobs & Small Business (DJSB) also acknowledged and support the expansion of DFAT's Free Trade Agreement Portal as a tool for SMEs to navigate Australia's existing FTAs.<sup>296</sup>

The Portal provides up-to-date information on preferential tariff opportunities available to Australian importers and exporters under all of Australia's existing FTAs. The Portal also includes detailed information regarding applicable product-specific rules of origin and accompanying documentation requirements, in addition to 'market snapshots' for a growing number of products.<sup>297</sup>

6.179 DFAT submitted in response to calls from businesses, the Portal was expanded in April 2018 to include services commitments made by Australia's FTA partners, in addition to commitments on goods.<sup>298</sup>

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<sup>293</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 12.

<sup>294</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 9.

<sup>295</sup> Australian Chamber of Commerce and Industry, *Submission 28*, p. 9.

<sup>296</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 11.

<sup>297</sup> Dept. of Industry, Innovation & Science and Dept. of Jobs & Small Business, *Submission 31*, p. 11.

<sup>298</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 12.

Information on services explains how businesses can export their services across borders, travel to overseas markets to supply their services, or establish a presence overseas to supply services. DFAT specifically targeted SMEs in its user testing of this enhancement of the Portal to ensure they are able to use it effectively.<sup>299</sup>

- 6.180 The Portal is being utilised very well with DFAT stating it has attracted around 220,000 unique users<sup>300</sup> since its launch until November 2018, with 2,600 users per week on average. The latter figure has increased steadily since the Portal's launch.<sup>301</sup>

The services expansion of the Portal is largely complete. Further expansions to include goods and services under are the TPP-11, PAFTA, Hong Kong, and IA-CEPA will be concluded as soon as possible after entry into force of these agreements.<sup>302</sup>

- 6.181 At a demonstration of the Portal at the ASEAN Special Summit 17-18 March 2018, over 30 SME and business representatives learnt about how the Portal could assist their businesses in taking advantage of export opportunities.<sup>303</sup>

Real Dairy, which has facilities in New South Wales, Victoria and Queensland, is looking to export cheese and dairy products to new markets in Asia. Alexander Lederer, a representative from the company who participated in the demonstration, said the Portal was "very useful in providing details of tariffs and safeguards."<sup>304</sup>

## Improved infrastructure for regional traders

- 6.182 The Sunshine Coast Council outlined in the context of the Sunshine Coast, growing exports can benefit from improving infrastructure to include reliable heavy passenger and freight rail services along the North Coast Rail Line, as well as a safe and efficient Bruce Highway to Brisbane and to the north of Queensland.<sup>305</sup>

<sup>299</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 12.

<sup>300</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Supplementary to submission 12.2*, p. 1.

<sup>301</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 12.

<sup>302</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Supplementary to submission 12.2*, p. 1.

<sup>303</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 12.

<sup>304</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 12.

<sup>305</sup> Sunshine Coast Council, *Submission 9*, p. 2.



6.183 Sunshine Coast Council is also supportive of the Australian Government providing unrestricted access for foreign airlines flying into Australia's major primary and secondary airports, including the Sunshine Coast Airport.<sup>306</sup>

This would greatly facilitate the more effective movement of goods and human capital.<sup>307</sup>

6.184 The Council submitted improved digital infrastructure is of crucial significance to the growing knowledge-based workforce within the Sunshine Coast region.<sup>308</sup>

General connectivity to the National Broadband Network remains a concern for many SMEs within the region. As the digital demands of local businesses continue to grow over time, demand will grow for a range of digital infrastructure solutions including cloud computing, mobile telecommunications, Internet of Things, as well as larger more capable network infrastructure systems including Wi-Fi.<sup>309</sup>

## State government trade resources and 'Team Australia'

6.185 The Manager of Luckypole Limited, a trading company based in Hong Kong that imports Australian food into Asia, Mr Brian Mallyon, warned how the many different levels of Australian government will often compete against one another.<sup>310</sup>

Each state is independent of the others, which is understandable given such things as funding and the need to promote constituents. What this does however is fragment the market and dilute the "Brand Australia" message.

It is the diversity of what Australia offers and the Australian lifestyle that is our brand - wine from WA, paired with fish from Tas. and vegetables from Vic, for example.<sup>311</sup>

6.186 Managing Director of Eco Energy Group Ltd, Mr Lionel Barden, expressed concern about the confusion created in international markets by competing

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<sup>306</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>307</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>308</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>309</sup> Sunshine Coast Council, *Submission 9*, p. 2.

<sup>310</sup> Luckypole Ltd, *Submission 10*, p. 3.

<sup>311</sup> Luckypole Ltd, *Submission 10*, p. 3.

interests of state and territory governments from Australia, as well as the federal government.<sup>312</sup>

...to have state governments competing with federal government using funds from both sources to go to export just is bullshit. You've got only so much money in Australia, and we need to spend it in the right way. So at the next COAG meeting it should be on the agenda to say we don't spend money outside our plan—not six, seven or eight different plans where one is taking people overseas on a jaunt and someone else is following them up a month later. It's a real problem.<sup>313</sup>

- 6.187 Ms Megan Antcliff, the Deputy Chief Executive of the Department of Trade, Tourism and Investment, South Australia, outlined the “need for more data or better clarity around specific products into specific markets and how those opportunities might be leveraged”<sup>314</sup>.

I think clarity on some of those technical questions will also, as a 'team Australia' approach, help us better target trade and inward investment activities for those investors looking to establish operations in Australia to then trade into the region. I acknowledge there are efforts in this...But I think that would be something that would be beneficial to all the states and indeed to the 'team Australia' approach.<sup>315</sup>

- 6.188 Even with FTAs, Luckypole stated the target market for Australian small business is where the more sophisticated shoppers are, because Australian products can rarely compete on price alone. Those more desired shoppers for Australia are those who are:<sup>316</sup>

- less price conscious
- consider quality, consistency and continuity of supply
- care about the origin of products and their environmental impact

- 6.189 Australia is not the only exporting nation in this space, according to Luckypole Limited, so it then it becomes a matter of how Australian SMEs distinguish themselves from the rest.<sup>317</sup>

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<sup>312</sup> Mr Lionel Barden, *Committee Hansard*, 23 July 2018, p. 21.

<sup>313</sup> Mr Lionel Barden, *Committee Hansard*, 23 July 2018, p. 21.

<sup>314</sup> Ms Megan Antcliff, *Committee Hansard*, 3 August 2018, p. 26.

<sup>315</sup> Ms Megan Antcliff, *Committee Hansard*, 3 August 2018, p. 26.

<sup>316</sup> Luckypole Ltd, *Submission 10*, p. 5.

<sup>317</sup> Luckypole Ltd, *Submission 10*, p. 5.

New Zealand has done a good job of getting small business on the radar by hosting small events that promote New Zealand foods. They hold events catering to those in the relevant industry and are extremely well attended.<sup>318</sup>

## Government of South Australia

- 6.190 The South Australian Minister for Trade, Tourism and Investment, Hon David Ridgway MLC, believes better coordination in Austrade's program with its state business education programs would help it make more SA businesses aware of international trade opportunities.<sup>319</sup>

There have been occasions, for example, when Austrade events in South Australia have been poorly attended, when a minor shift of timing or location would have ensured greater engagement. There also seems to be, at times, a degree of East Coast centricity in scheduling events.<sup>320</sup>

- 6.191 Business SA outlined in states such as South Australia with an ageing population and low population growth, expanding export markets is critical to economic growth and such expansion will need to include SMEs.<sup>321</sup>

- 6.192 Business SA recalled that in 2004, the previous State Government established a \$25 billion export target by the year 2014.<sup>322</sup>

With exports only reaching \$13.36 billion by 2011, the target deadline was postponed until 2020. By 2014 with exports still well below the 2020 target, the target was revised to \$18 billion, with a new target date of 2017.<sup>323</sup>

- 6.193 Business SA stated for 2016/17 and based on chain volume data which accords with the previous target benchmark, South Australia's export trade consisted of \$12.9 billion in goods and \$2.72 billion in services for a total of \$15.62 billion.<sup>324</sup>

Based on South Australia's current population share of exports, 7.02 percent, exports would be \$23.66 billion for 2016/17, \$8.04 billion more than our current level of exports. If the same formula were applied to every year since the GFC,

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<sup>318</sup> Luckypole Ltd, *Submission 10*, p. 5.

<sup>319</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>320</sup> Government of South Australia, *Submission 30*, p. 2.

<sup>321</sup> Business SA, *Submission 15*, p. 1.

<sup>322</sup> Business SA, *Submission 15*, p. 2.

<sup>323</sup> Business SA, *Submission 15*, p. 2.

<sup>324</sup> Business SA, *Submission 15*, p. 2.

South Australian export revenues over that period would have been \$75.66 billion higher.<sup>325</sup>

### ***Business SA's Export Ready workshops***

6.194 Business SA pioneered and is delivering South Australia's only export ready program to develop the ability of SME businesses to export.<sup>326</sup>

Consequently, we need trade agreements which can harness this additional potential now and into the future.<sup>327</sup>

**Figure 6.3 Parliamentary roundtable at the South Australian Parliament**



*Parliamentary roundtable with Business SA, the Australia China Business Council-SA and Export Council of Australia-SA at the South Australian Parliament.*

<sup>325</sup> Business SA, *Submission 15*, p. 2.

<sup>326</sup> Business SA, *Submission 15*, p. 2.

<sup>327</sup> Business SA, *Submission 15*, p. 2.

## Government of Victoria

- 6.195 The Victorian Government submitted that its Department of Economic Development, Jobs, Transport and Resources (DEDJTR) is tasked with working closely with SMEs to support them to increase their international business.<sup>328</sup>
- 6.196 Since November 2014, the Victorian Government has committed \$125 million to programs that boost Victoria's international engagement, positioning Victorian businesses to be globally successful and drive exports and jobs. The DEDJTR manages extensive trade mission programs, export capability initiatives and the Victorian Government Trade and Investment network, the largest of any state or territory, have been critical for Victoria's successful engagement in the global economy and plans for continued prosperity.<sup>329</sup>
- 6.197 According to the Victorian Government, SMEs are a vital part of the Victorian economy and export base, accounting for the majority of the 12,777 Victorian companies that export goods. Small businesses generate around a third of Victoria's output and more than 40 per cent of all private sector jobs. There are more than 576,000 small businesses in Victoria making up over 95 per cent of all firms.
- 6.198 The DEDJTR works closely with SMEs, through Trade Victoria, Invest Victoria and Small Business Victoria, to provide support to increase their international business. The Victorian Government recognises that it is incumbent on all governments to assist SMEs to overcome barriers to international engagement.
- 6.199 The Victorian Minister for Trade and Investment, Hon Philip Dalidakis MP, outlined that the department continues to progress the state government's commitment to eliminate impediments to business growth, including achieving a commitment to cut red tape by 25 per cent and the commencement of the Small Business Regulation Review (SBRR).<sup>330</sup>

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<sup>328</sup> Victorian Government, *Submission 35*, p. 1.

<sup>329</sup> Victorian Government, *Submission 35*, p. 4.

<sup>330</sup> Victorian Government, *Submission 35*, p. 1.

6.200 The Victorian Government shared the Productivity Commission's recommendations from 2010 that there should be more transparent and rigorous assessments of FTAs that should encompass two elements:<sup>331</sup>

- to ensure agreements are in Australia's interest, before negotiations commence, modelling should include realistic scenarios and be overseen by an independent body;
- after negotiations have concluded and prior to signing of the agreement, a full and public assessment should be undertaken covering all of the actual negotiated provisions.

## Government of NSW

6.201 The NSW government's provides resources and assistance such as a detailed 'Export Accelerator Toolkit' and a range of practical workshops and resources made available to exporters across NSW via the 'Export Capability Building' and 'Export Labs' programs or accessible at <https://www.industry.nsw.gov.au/export-from-nsw/export-assistance/export-capability-building-program>.<sup>332</sup>

**Figure 6.4 Roundtable hearing with SMEs in Griffith, NSW**



*Roundtable hearing with SMEs participants in Griffith, NSW*

<sup>331</sup> Victorian Government, *Submission 35*, p. 5.

<sup>332</sup> KPMG, *Submission 4*, pp. 5-6.

## Recommendation 7

**6.202 The Committee recommends that the Australian Government strengthen its Team Australia approach in target markets by:**

- **Supporting an increase in the number of smaller, non-Ministerial, industry-focused trade delegations with an emphasis on one-on-one business meetings to achieve more tangible trade outcomes; and**
- **Undertaking a joint study with state and territory governments of Australia's trade promotion efforts internationally, with a view to pursuing reforms that will ensure a better coordinated, unified and coherent approach for businesses, including SMEs, to better engage with all tiers of Australian government promoting Australia's commercial interests.**

## Role of customs brokers in helping SMEs utilise FTAs

**6.203** The peak body for Australia's international trade and logistics sectors, Freight & Trade Alliance (FTA), outlined that freight forwarders and international trade service providers facilitate approximately 70 per cent of Australia's inbound goods trade and 40 per cent of Australia's outbound goods trade.<sup>333</sup>

They are often the first port of call for SME importer and exporters, responsible for advice and guidance in areas including documentation requirements at origin and destination, non-tariff barriers to Trade, tariff regimes and accessing free trade agreements.<sup>334</sup>

**6.204** The FTA highlighted that customs brokers are the licensed professionals that understand tariff classification. The quality of brokers' service is assured, according to FTA, with a rigorous licensing system overseen by the Department of Home Affairs and the National Customs Broker Licensing Advisory Committee (NCBLAC) which is a statutory body under the Customs Act 1901.<sup>335</sup>

FTA is accredited with the Department of Home Affairs to provide Continuing Professional Development (CPD) training for licensed Customs Brokers and is

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<sup>333</sup> Freight & Trade Alliance, *Submission 23*, p. 2.

<sup>334</sup> Freight & Trade Alliance, *Submission 23*, p. 2.

<sup>335</sup> Freight & Trade Alliance, *Submission 23*, p. 1.

one of only two organisations accredited by the Department of Agriculture and Water Resources (DAWR) to provide Continued Biosecurity Competency (CBC) training for international trade professionals.<sup>336</sup>

- 6.205 The FTA outlined that freight forwarders and international trade service providers facilitate approximately 70 per cent of Australia's inbound goods trade and 40 per cent of Australia's outbound goods trade.<sup>337</sup>

They are often the first port of call for SME importer and exporters, responsible for advice and guidance in areas including documentation requirements at origin and destination, Non-Tariff Barriers to Trade, tariff regimes and accessing Free Trade Agreements.<sup>338</sup>

- 6.206 Mr Travis Brooks-Garrett, the Director of the Freight and Trade Alliance; and Secretariat of the Australian Peak Shippers Association, believes more can be done to match SMES with trade professionals such as Customs agents.<sup>339</sup>

...we've already got over a thousand individually-licensed customs brokers and trade professionals, who, for nine or 10 hours a day, are working through the different schedules, and understanding the working tariff, and reading AAT decisions around tariff classification. And they already exist; they're regulated by the government; they go through a rigorous licensing process. They are very, very well utilised on imports, and they are completely under-utilised on exports. If we were able to match these trade professionals with SMEs in order to help them come up with real operational strategies to get their goods to market and apply the correct rule of origin and the right classification, I think that would very well address many of the other submissions that have been provided around the complexities of free trade agreements.<sup>340</sup>

- 6.207 Mr Russell Wiese, the General Counsel of the Freight and Trade Alliance; and Principal of Hunt and Hunt Lawyers, explains it's not just about getting the service provider, the broker and forwarder involved.<sup>341</sup>

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<sup>336</sup> Freight & Trade Alliance, *Submission 23*, p. 1.

<sup>337</sup> Freight & Trade Alliance, *Submission 23*, p. 1.

<sup>338</sup> Freight & Trade Alliance, *Submission 23*, p. 1.

<sup>339</sup> Mr Travis Brooks-Garrett, *Committee Hansard*, 30 July 2018, p. 30.

<sup>340</sup> Mr Travis Brooks-Garrett, *Committee Hansard*, 30 July 2018, p. 30.

<sup>341</sup> Mr Russell Wiese, *Committee Hansard*, 30 July 2018, p. 31.



Once the decision to export has been made, it's getting them involved when they're considering the cost-benefit analysis of exporting to help exporters understand how these FTAs can help. Sometimes the difference is 20 to 30 per cent in tariffs, so that will be the factor that makes it viable to export. We need to be connecting trade professionals with people who are umming and ahing about exporting not just at the time they're ready to export.<sup>342</sup>

- 6.208 Ms Sally Phillips, Manager Free Trade Agreement Program, Austrade, said the Government was working with the Customs Brokers and Forwarders Council of Australia and with the Australian Peak Shippers Association and has delivered information sessions to more than 1,200 attendees.<sup>343</sup>

With the Customs Brokers and Forwarders Council, we developed a module that fit into their continuing professional development program. They gained or obtained two points for attending our session: listening to what the issues are around utilisation, why SMEs perhaps aren't utilising free trade agreements and what their role is. They're the last people to touch the paperwork, so they have a very important and unique role in assisting and facilitating the utilisation of free trade agreements. We were trying to equip them with skills so that they could be better placed.<sup>344</sup>

- 6.209 Business SA believed government support for SMEs could help them enjoy greater success as exporters.<sup>345</sup>

Determining the particular criterion that relates to eligibility for FTAs such as the China-Australia FTA can still require SMEs to access expert assistance and the Federal Government should consider how it can better promote the range of businesses from customer brokers to freight forwarders which are well placed to provide this information at low cost.<sup>346</sup>

- 6.210 In general, Business SA highlighted how difficult it can be for SMEs to understand the specifics of how they use certain FTAs like China's, for example which HS Code to use and what Origin Criterion.<sup>347</sup>

Notwithstanding, this type of information can be accessed from freight forwarders, customs brokers and the like, and while it may come at some

<sup>342</sup> Mr Russell Wiese, *Committee Hansard*, 30 July 2018, p. 31.

<sup>343</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 9.

<sup>344</sup> Ms Sally Louise Phillips, *Committee Hansard*, 25 June 2018, p. 9.

<sup>345</sup> Business SA, *Submission 15*, p. 1.

<sup>346</sup> Business SA, *Submission 15*, p. 1.

<sup>347</sup> Business SA, *Submission 15*, p. 2.

minor or indirect cost, if anything the Government could promote the range of companies which offer such a service, for example through the DFAT FTA portal.<sup>348</sup>

## Recommendation 8

**6.211 The Committee recommends that the Australian Government adopts a more holistic approach to encouraging Australian small and medium enterprises (SMEs) to trade internationally and utilise free trade agreements (FTA) by:**

- **Targeting service delivery of FTA awareness and education programmes to SMEs based in regional areas by matching the content of seminars and workshops to the specific economic profile of the regions, drawing upon local success stories and providing direct advice about market access and promotion relevant to the key industries of those regions;**
- **Inviting the active participation of industry representative bodies, such as those representing customs agents and freight forwarders, in FTA awareness and education programs to educate SMEs about the export services their members provide;**
- **Strengthening capacity development of SMEs so they become more import/export ready, including knowing how to assess destinations and business partners, and using technology to support international engagement and trading activities; and**
- **Adopting a tiered pricing structure for service delivery by the Australian Trade and Investment Commission and the departments of Agriculture and Water Resources and Home Affairs that takes into account business size and export volumes.**

## Wine Australia and the regional wine support package

**6.212 In 2017 the Winemakers' Federation of Australia welcomed the Australian Government's \$50 million Export and Regional Wine Support Package to support the wine industry capitalise on export and tourism opportunities.<sup>349</sup>**

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<sup>348</sup> Business SA, *Submission 15*, p. 2.

6.213 The Package, according to the WFA, has a very strong focus on marketing and promotion in export markets, assisting existing exporters and developing capabilities for new exporters in China and/or other free trade agreement (FTA) markets.<sup>350</sup>

This funding will be delivered over three years commencing in 2018 and will be vital in assisting industry's SMEs to capitalise on their existing export success or enter the export market.<sup>351</sup>

6.214 The Chief Executive of the WFA, Mr Anthony Battaglione, supported the marketing of Australian wine by Wine Australia paid for by a levy.

Everyone who exports and all producers pay a levy and it goes to Wine Australia, which is the marketing body. That's roughly \$3 million a year and then there's user pays where you can pay to participate in events—so they will organise events. A large amount of that money comes from the large companies, because they export more, but the benefit goes to all.<sup>352</sup>

6.215 The Managing Director of wine exporter Inland Trading Company, Mr Greg Corra, raised some concerns about the use of the \$35,000 in levies he pays on exports to the marketing and research agency Wine Australia. Mr Corra outlined that Inland Trading was not a “little company”, as it exports around 1.8 per cent of all Australian wine exports on behalf of 75 wineries to currently 58 international markets.<sup>353</sup>

We export to markets where people normally would not be. We pay Wine Australia a levy of approximately \$35,000 a year. Much of that levy is not spent in the markets where we want to be, which are not where they want to promote. Unfortunately most of the levies are controlled by the bigger companies. The emerging markets are still there and continue to emerge. That is where we should be spending our promotion dollars. Forget the US. The US is a basket case for Australia. It's been declining and will continue to decline...What does Wine Australia do? Spend money there. China is now a developed market. China grew at a rate of 44 per cent last year. Why now do we want to spend more money in China, when the market's already verging on maturity? It's already at a stage where I don't think the Chinese will take a

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<sup>349</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

<sup>350</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

<sup>351</sup> Winemakers' Federation of Australia, *Submission 6*, p. 3.

<sup>352</sup> Mr Anthony Battaglione, *Committee Hansard*, 10 September 2018, p. 2.

<sup>353</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 3.

lot more. It will continue to grow as incomes rise, but there are markets out there that are way better to diversify to for the Australian wine producer.<sup>354</sup>

- 6.216 Mr Battaglène welcomed the benefits from the \$50 million that has come to the wine industry following reforms and the wine equalisation tax or WET.<sup>355</sup>

A lot of that is now being spent on getting smaller producers export ready, so they understand how to get into the markets, and also a lot more events in China and the US, in particular, where we're trying to get higher value product, where they can come and participate.<sup>356</sup>

- 6.217 Mr Battaglène believes the package is helping make more smaller and medium sized winemakers export ready.<sup>357</sup>

...training programs and that sort of thing so that people can understand what they need to get into markets...It's pretty exciting stuff. As part of that we're also giving people money back for attending events. So if you want to invest and go to ProWine in China, for example, which is on in November, you'll be able to get your money back for your investment to attend that. Large companies are not able to access that. That's for a finite time; we're just looking to extend that for another year because it's been very good.<sup>358</sup>

- 6.218 The WET is a concern for Mr Corra after he was shown a form on a New Zealand internal revenue site allowing New Zealand winemakers to claim back the Australian rebate.

This document allows the New Zealanders to claim back WET rebates for products they sell in our country. As a taxpayer, I'm aghast that we allow that to happen. As a businessman, all I can say is that it's also creating more competition for Australian producers. Why the hell should we pay a WET rebate to our competitors, New Zealanders, and allow them to enter this market?<sup>359</sup>

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<sup>354</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 3.

<sup>355</sup> Mr Anthony Battaglène, *Committee Hansard*, 10 September 2018, p. 2.

<sup>356</sup> Mr Anthony Battaglène, *Committee Hansard*, 10 September 2018, p. 2.

<sup>357</sup> Mr Anthony Battaglène, *Committee Hansard*, 10 September 2018, p. 3.

<sup>358</sup> Mr Anthony Battaglène, *Committee Hansard*, 10 September 2018, p. 3.

<sup>359</sup> Mr Greg Corra, *Committee Hansard*, 15 October, p. 3.

## Establishing an SMEs' council to represent SMEs

- 6.219 Mr Philip Marley, a Director at the Export Council of Australia in South Australia believes the Council has recommended that there should be a body representing SMEs in Australia.<sup>360</sup>

An SME council that can look after the interests of SMEs, not just with respect to free trade agreements but more broadly within the Australian business community. I guess that emphasis is really on micro-SMEs—very small businesses. They'll need help with not only understanding FTAs—they understand them at a high level—but the detail of how you actually benefit from them; that's harder.<sup>361</sup>

- 6.220 Mrs Nancy Emil, Manager of Migration and Trade at Business SA sees merit in SMEs establishing their own representative body to assist with expertise on FTAs and exporting.<sup>362</sup>

I do agree that SMEs would need an expert body or an expert hub where they can get advice on the different aspects of the FTAs, as well as the non-tariff barriers. That body would help them understand and learn on the curve of what's required to export to the different markets.<sup>363</sup>

- 6.221 Mr Andrew McKenna, a Senior Policy Adviser at Business SA, believes there may already be enough business representative bodies covering the issues faced by their membership that are SMEs.<sup>364</sup>

And, first, just in terms of the other bodies, consider the landscape of existing national bodies in the SME business membership space.<sup>365</sup>

<sup>360</sup> Mr Philip Marley, *Committee Hansard*, 3 August 2018, p. 11.

<sup>361</sup> Mr Philip Marley, *Committee Hansard*, 3 August 2018, p. 11.

<sup>362</sup> Mrs Nancy Emil, *Committee Hansard*, 3 August 2018, p. 11.

<sup>363</sup> Mrs Nancy Emil, *Committee Hansard*, 3 August 2018, p. 11.

<sup>364</sup> Mr Andrew McKenna, *Committee Hansard*, 3 August 2018, p. 11.

<sup>365</sup> Mr Andrew McKenna, *Committee Hansard*, 3 August 2018, p. 11.



## 7. Ongoing capacity building to create opportunities and more value from future FTAs

### Government efforts to increase SME utilisation of FTAs

- 7.1 DFAT submitted that improving universal accessibility of SMEs to FTAs requires “continued efforts to raise awareness and understanding of FTAs, and assistance to current and future SMEs in their journey to export”.<sup>1</sup>

The options identified by PwC to optimise utilisation of FTAs are consistent with Government policy and reflected in our ongoing work program. The Portfolio is working with industry associations, businesses, trade intermediaries, domestic agencies and our FTA partners to progress these important initiatives to assist businesses. In particular, we acknowledge the particular benefits to SMEs associated with streamlining and reducing administrative costs associated with FTA documentation.<sup>2</sup>

- 7.2 Mr Martin Squire, General Manager, Trade and International Branch, Department of Industry, Innovation and Science wants to encourage SMEs to explore their export options to help grow their business.<sup>3</sup>

...it's very much around encouraging the cultural change within small to medium-sized enterprises; particularly, encouraging them to look seriously at

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<sup>1</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 8.

<sup>2</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 8.

<sup>3</sup> Mr Martin Squire, *Committee Hansard*, 20 August 2018, p. 9.

the export opportunities and take advantage of them if they're suitable for their firms. We know, from a statistical basis, that firms that export do a lot better on wages, on capital productivity, on growth and on long-term survival.

- 7.3 Sunshine Coast Council submitted that SMEs would welcome the expertise of representative bodies such as the Export Council of Australia, the Australian Chamber of Commerce and Industry, the Australian Institute of Export, and other organisations to provide specialised information and education on exporting. According to the Council, a HSBC study has found that “more tailored export assistance from government and other intermediary authorities would increase SME export uptake by 64 per cent”.<sup>4</sup>

Many of the challenges associated with exporting are based on misinformation, lack of knowledge sharing and ill-informed perceptions around free trade and foreign markets.<sup>5</sup>

- 7.4 The Sunshine Coast Council believed the fundamentals to capturing value from the FTAs are:
- Building the capacity of SMEs to better select international export destinations
  - Emphasising the importance of business partner selection,
  - Emphasising that the key to success of export operations is not merely exporting to markets, but establishing relationships with both businesses and consumers in the chosen market, where ultimately the transactions are made.
- 7.5 The Sunshine Coast Council would welcome the Australian Government:
- modelling the costs of administering the FTA on SMEs to understand whether the costs could inhibit the companies (and their people) supposed to benefit from actioning the FTA
  - providing an FTA look-up tool with key administration details and costs and templates of benefit to exporters
  - providing increased resources prior to and post FTA negotiations to ensure regional businesses know how to access and can budget (plan) in advance; and

<sup>4</sup> Sunshine Coast Council, *Submission 9*, p. 3.

<sup>5</sup> Sunshine Coast Council, *Submission 9*, p. 3.

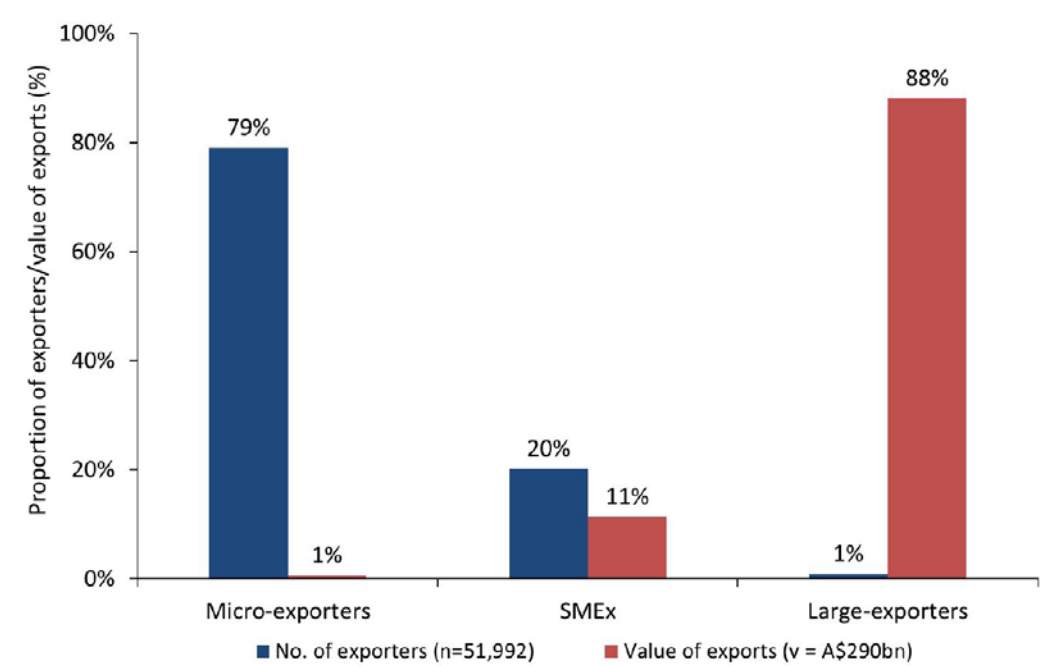


- recognising that there may be more benefit to a business expanding in an existing market than entering a new FTA market and ensure funding (e.g., export grants) can assist in both scenarios.

7.6 Chief Executive Officer of the Export Council of Australia, Ms Alina Bain, wanted the Government to look at coherent strategic programs around capacity building.<sup>6</sup>

So it's acknowledging that FTAs are important and a part of that training but that there are the 50 other pieces that an SME needs. We would like to see government funding being used efficiently and effectively for that training.<sup>7</sup>

**Figure 7.1 Proportion of exporters to value of exports**



*Micro-exporters (export revenues of less than \$250,000), SMEx (export revenues of between \$250,000 and \$50 million) and large exporters (export revenues of more than \$50 million)*

Source: Ai Group, Submission 34, Proportion of exporters to value of exports.

7.7 Mr Todd Miller, the General Manager of International Trade at the Department of Trade, Tourism and Investment, South Australia see merit in

<sup>6</sup> Ms Alina Bain, *Committee Hansard*, 2 August 2018, p. 22.

<sup>7</sup> Ms Alina Bain, *Committee Hansard*, 2 August 2018, p. 22.

more targeted marketing of these FTAs to in-country importers and distributors buying the Australian goods and services.<sup>8</sup>

I think the next level of improvement that would need to be made would be to actually start, and increase, the marketing of our FTAs to those international markets. One of the keys to that when you're negotiating an SME into another market is that those international importers and distributors don't know of or perhaps care about that free trade agreement or what the actual benefit is to that importer. In a lot of cases the tariff importer, if they're purchasing free on board from this end, has the tariff benefit, quite often, at their end. So one of the key things that we had is that marketing overseas via the Commonwealth network to those key markets and those key distributors would absolutely help our SMEs.<sup>9</sup>

- 7.8 KPMG noted a range of tools and educational initiatives are available to SMEs through various federal and state government departments and agencies with exporting goods or services.<sup>10</sup>

However we are of the view that a coordinated approach between government, industry associations and professional advisors to help SMEs navigate free trade agreements using advanced technology through an integrated single window is critical.<sup>11</sup>

- 7.9 Chief Executive Officer of the Hunter Business Chamber, Mr Bob Hawes, wants the Government to focus on is what the Government has control over such as taxes, charges and regulation, and improving how that trade related infrastructure would make things simpler—as opposed to things which it does not have control over, which extends to the overseas markets Australia does trade with.<sup>12</sup>

- 7.10 Ms Glenys Schuntner, Chief Executive Officer of Regional Development Australia Townsville and North West Queensland Inc. believes North Queensland's opportunity going forward is to be able to “capture opportunities for further value adding in our existing industries”.<sup>13</sup>

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<sup>8</sup> Mr Todd Miller, *Committee Hansard*, 3 August 2018, p. 26.

<sup>9</sup> Mr Todd Miller, *Committee Hansard*, 3 August 2018, p. 26.

<sup>10</sup> KPMG, *Submission 4*, p. 3.

<sup>11</sup> KPMG, *Submission 4*, p. 3.

<sup>12</sup> Mr Bob Hawes, *Committee Hansard*, 1 August 2018, p. 20-21.

<sup>13</sup> Ms Glenys Schuntner, *Committee Hansard*, 4 October 2018, p. 4.

...is nurture along a whole lot of new development industries, possibly some of the industries that we haven't even thought of yet, in terms of coming out of digital economy and small business space about where the new growth industries are. A lot of those are of course in the services sector.<sup>14</sup>

We'd also encourage the thought that regional Australia has just as much an interest in those new service economy developments as we do in the traditional export arena of our commodities and our agriculture.<sup>15</sup>

- 7.11 The Managing Director of Masterol Foods, Mr Nathan Cater, would welcome more insight on how others have managed the trade barriers beyond tariffs.<sup>16</sup>

We understand that FTAs are about more than just tariffs, but the business community would be able to more easily perceive that they involve a holistic approach to the types of barriers that we've encountered, and that there are active measures in place to trace through the actual experiences that people may go through in availing themselves of the opportunities that are on offer.<sup>17</sup>

- 7.12 Trade consultants KPMG believes professional services firms like itself, Australian corporations and the Australian Government are all well placed to take a lead in helping SMEs to overcome the barriers to utilising FTAs. KPMG submitted a number of key initiatives that it believed would help SMEs to engage more effectively with Asia and, indeed, with all FTA trading partners:

- Helping SMEs to formulate effective market engagement strategies;
- Helping SMEs to develop useful commercial relationships; and
- Making export administration clearer and compliance simpler.<sup>18</sup>

## **Helping SMEs to formulate effective market engagement strategies**

- 7.13 KPMG stated it regularly assists businesses through its *Access Asia* initiative to understand how to engage effectively with Asian export markets.<sup>19</sup>

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<sup>14</sup> Ms Glenys Schuntner, *Committee Hansard*, 4 October 2018, p. 4.

<sup>15</sup> Ms Glenys Schuntner, *Committee Hansard*, 4 October 2018, p. 4.

<sup>16</sup> Mr Nathan Cater, *Committee Hansard*, 1 August 2018, p. 37.

<sup>17</sup> Mr Nathan Cater, *Committee Hansard*, 1 August 2018, p. 37.

<sup>18</sup> KPMG, *Submission 4*, p. 3.

<sup>19</sup> KPMG, *Submission 4*, p. 3.

Our consistent experience is that SMEs rush to perceived opportunities without doing their homework. They require comprehensive market-entry and then growth strategies which consider the wider regulatory, local market and non-tariff hurdles to market success, including the benefits of FTAs and how best to access them.<sup>20</sup>

7.14 According to Cross & Co Lawyers, Australia's trade competitors understand SME exporters are the life blood of their economies and provide significant support, either through tax breaks, direct support or a combination of both.<sup>21</sup>

7.15 Cross & Co Lawyers pointed to research by the Australian Chief Economist published in 2018 that found exporters employ 24 per cent more people, have 40 per cent greater value add, are 13 per cent more productive and pay 11.5 per cent higher salaries than non-exporters.<sup>22</sup>

The Federal Government in decreasing SME export support by 50 per cent since 1996, is swimming against the international tide.<sup>23</sup>

7.16 International and domestic research confirms SME internationalisation as a key catalyst to wage growth, according to Cross & Co Lawyers citing Harvard's Michael Porter, who observed higher productivity in "trade exposed" SME's.<sup>24</sup>

A 2015 Report commissioned by Goldman Sachs found internationally active SME's in the UK were three times more likely to introduce new products or services than domestic focused companies. It found strong evidence that SME internationalisation lifted productivity. The OECD has made similar findings.<sup>25</sup>

## Helping SMEs to develop useful commercial relationships

7.17 KPMG highlighted how SMEs entering a new market often require support in finding appropriate, trustworthy supply-chain and distribution partners and in then developing an understanding of mutual goals.<sup>26</sup>

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<sup>20</sup> KPMG, *Submission 4*, p. 3.

<sup>21</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>22</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>23</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>24</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>25</sup> Cross & Co Lawyers, *Submission 19*, p. 1.

<sup>26</sup> KPMG, *Submission 4*, p. 3.

We believe that government (including Austrade and EFIC) could work with professional services firms and corporations to effectively leverage networks across Asian markets to conduct high-level due-diligence activities to determine the suitability of potential in-country partners, provide Australian SMEs with a trusted network and to establish realistic expectations regarding business cultures and relationships.<sup>27</sup>

## **Making export administration clearer and compliance simpler**

- 7.18 KPMG suggested providing SMEs with access to easy-to-use and intuitive digital systems and documents to determine FTA eligibility, to help with obtaining export certificates and the relevant approvals.<sup>28</sup>

...establishing a 'single window' to government, would enable SMEs to speed up the export process and allow them to focus on the complexities of doing business in Asia.<sup>29</sup>

## ***Technological solutions to export compliance***

- 7.19 Documentary compliance requirements, according to KPMG, are a key cause of friction in the management of modern supply chains. KPMG believed technology can and should play a major role in facilitating and removing barriers to international trade.<sup>30</sup>

...exploration of options to modernise the way our businesses engage with international markets, including by developing a digital 'single window' for international trade that would enable the centralised submission of electronically standardised import and export requirements.<sup>31</sup>

- 7.20 KPMG pointed to the benefits of technology shown in UN economic modelling suggesting that the digitisation of trade paperwork could help bolster Asia-Pacific countries' exports by USD 257 billion a year. KPMG welcomed the Department of Home Affairs' trade modernisation agenda and the role that emerging technologies such as distributed ledgers, artificial

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<sup>27</sup> KPMG, *Submission 4*, p. 3.

<sup>28</sup> KPMG, *Submission 4*, p. 3.

<sup>29</sup> KPMG, *Submission 4*, p. 3.

<sup>30</sup> KPMG, *Submission 4*, p. 10.

<sup>31</sup> KPMG, *Submission 4*, p. 10.

intelligence and data analytics can play in facilitating transparent, secure and frictionless trade flows.<sup>32</sup>

- 7.21 KPMG promotes the use of advanced data analytics and visualisation to help importers and exporters map their supply chain and to “diagnose pain-points, efficiency drags and to identify and exploit commercial opportunities under trade facilitation frameworks”.<sup>33</sup>

We are also actively exploring how robotic process automation and artificial intelligence can be used to augment high-volume, recurrent tasks associated with the use of FTAs such as the identification and application of FTA rules of origin, standardisation of documentation processes and management of compliance.<sup>34</sup>

- 7.22 KPMG sees the Australian Government having a key role in assisting SMEs to access cost-effective technology-enabled pathways to use FTAs and develop practical skills in the use of technology.<sup>35</sup>

This could include facilitating greater collaboration with professional services providers to ideate and develop digital solutions to alleviate the administrative and operational burdens of FTA claim compliance and to elevate SMEs' understanding of the potential applications of technology to their operating environment.<sup>36</sup>

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<sup>32</sup>KPMG, *Submission 4*, p. 10.

<sup>33</sup> KPMG, *Submission 4*, p. 10.

<sup>34</sup> KPMG, *Submission 4*, p. 10.

<sup>35</sup> KPMG, *Submission 4*, p. 10.

<sup>36</sup> KPMG, *Submission 4*, p. 10.

**Figure 7.2** Parliamentary roundtable at Newcastle University, NSW



*Participants at a parliamentary roundtable at Newcastle University's NeW Space, NSW.*

## **Training Provider (FTA-TP) grants.**

7.23 Twenty-six organisations across Australia received FTA Training Provider Grants from Austrade worth a total of \$2.14 million. DFAT submitted that FTA-TP grant recipients are member-based business organisations with significant SME outreach capacity.<sup>37</sup>

The purpose of the funding is to deliver technical FTA knowledge that increases SMEs' FTA utilisation in North Asian markets. To date, successful grant recipients have delivered over 120 technical FTA training sessions nationally.<sup>38</sup>

7.24 FTA-TP grant information sessions were held in capital cities or via webinar before the commencement of each grant round. According to DFAT, these sessions were marketed to both member-based business organisations and

<sup>37</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 13.

<sup>38</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 13.

state government counterparts to encourage engagement from interested stakeholders.<sup>39</sup>

State and territory governments have supported grant recipients by providing speakers for training sessions, venues and, in some cases, additional small grants to boost funding.<sup>40</sup>

7.25 The 120 FTA training sessions were delivered nationally by member-based business organisations such as chambers of commerce, industry associations, bilateral chambers, peak industry bodies, universities and TAFE colleges, through the FTA Training Provider Grant program.<sup>41</sup>

7.26 Ms Kelly Ralston, Chief Client Officer, Austrade, outlined the grants have gone to member based organisations to promote FTAs and the technical aspects of these trade agreements to their members.<sup>42</sup>

The role of those groups is to help build technical training on some of the very technical aspects of free trade agreements. The members that have been covered by those agreements have reached some 300,000 Australian businesses. Training is being delivered by those organisations in a number of ways: through seminars, through one-on-one coaching and through podcasts. I think some podcasts reached some 4,000 people. There are a range of mechanisms to actually engage with the companies that are members of those organisations.<sup>43</sup>

7.27 Mr Warren Cross, Senior Legal Counsel, Cross & Co Lawyers expressed his belief that Austrade have not been too adept at being able to sell FTAs in the areas of services in niche markets.<sup>44</sup>

FTAs in the areas of goods are relatively simple. I've got grapes. I used to pay 20 percent tariff; I now pay five. Services are a little more complex, and I think sometimes it would be better, instead of funding government educational programs, to give money to the trade organisations and let them market that.<sup>45</sup>

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<sup>39</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, pp. 13-14.

<sup>40</sup> Department of Foreign Affairs and Trade, Austrade & Efic, *Submission 12*, p. 14.

<sup>41</sup> Australian Trade and Investment Commission, *Supplementary to submission 12.2*, p. 1.

<sup>42</sup> Ms Kelly Ralston, *Committee Hansard*, 25 June 2018, p. 3.

<sup>43</sup> Ms Kelly Ralston, *Committee Hansard*, 25 June 2018, p. 3.

<sup>44</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 45.

<sup>45</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 45.



7.28 Mr Cross outlined if it was him allocating government resources for growing the trade in services, he would for example give \$50,000 to the engineers association and let them work out exactly what the opportunities for engineers to export services are under the FTA.<sup>46</sup>

Those organisations can then target the exact areas where there are opportunities. The problem that Austrade is confronting is that it's a generalist in a specialist world. That's the problem it's confronting. It's trying to be all things to all people, and it's impossible. The world now is niche. It's about niche opportunities, and the successful Australian exporters in the SME space have always been niche.<sup>47</sup>

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## Recommendation 9

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7.29 **The Committee recommends that the Australian Government makes better use of data and technology for identifying and helping Australian small and medium enterprises (SMEs) capture international trade opportunities by:**

- **Embracing e-commerce as a key enabler of trade and including e-commerce as a key feature in future FTAs;**
- **Delivering simplified, user-friendly digital resources and trade technologies to assist SMEs by making it easier to find the export information required for each trade agreement;**
- **Assessing how trade consultant advisory agencies, business chambers and industry representative bodies can provide greater assistance to SMEs in collaboration with governments, including consideration of joint pilots to build the readiness and technological capacity of SMEs; and**
- **Broadening the base and deepening the granularity of export data that is collected, analysed and published so it can better guide exporters and policy makers.**

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<sup>46</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 45.

<sup>47</sup> Mr Warren Cross, *Committee Hansard*, 2 August 2018, p. 45.

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## FTA workshops by the Chamber of Commerce and Industry of WA

7.30 The Chamber of Commerce and Industry of Western Australia (CCI) outlined it was contracted by Austrade to run two FTA training workshops over the past 12 months of 2017 and 2018. CCI delivered these workshops over 12 separate events to a wide range of sectors across Perth and the regional areas of WA, which were attended by 185 people in total.<sup>48</sup>

7.31 According to CCI the feedback from these events has indicated that they have been very well received and have proven to be an invaluable opportunity to business.<sup>49</sup>

The key finding from these workshops has been that SMEs often lack the experience, knowledge and skills to fully understand and utilise complex FTAs to their advantage.<sup>50</sup>

7.32 CCI believes its delivery of the workshops has gone a long way to “improving business’ understanding of FTAs and provided an important point-of-difference to other FTA events provided in an increasingly crowded market”.<sup>51</sup>

## Subsidising SMEs to access the services of customs brokers

7.33 Considering the challenges many SMEs have with understanding tariff classifications, the Freight & Trade Alliance believed improved utilisation of trade agreements by SMEs will only be improved by increasing access of small business to customs professionals.<sup>52</sup>

7.34 FTA submitted this could be achieved by:<sup>53</sup>

- i. Funding free trade agreement export sessions by SMEs with licensed customs brokers;
- ii. Subsidising customs broker services for certain eligible SMEs;

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<sup>48</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 2.

<sup>49</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 2.

<sup>50</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 2.

<sup>51</sup> Chamber of Commerce and Industry of Western Australia, *Submission 18*, p. 2.

<sup>52</sup> Freight & Trade Alliance, *Submission 23*, p. 1.

<sup>53</sup> Freight & Trade Alliance, *Submission 23*, p. 1.

- iii. Creating more awareness of the role of customs brokers within the SME export community.

7.35 The FTA admitted while service providers are generally fluent in inbound trade compliance requirements since training is mandatory in this area, the Alliance see a gap in the knowledge of service providers when it comes to export requirements.<sup>54</sup>

Gaps that have been identified include an understanding of export restrictions, import quotas with trading partners, rules of origin and certificate of origin requirements, distribution hub issues (increasingly an issue), packaging and product standards, import licenses, as well as day-to-day issues relating to import tariffs.<sup>55</sup>

7.36 FTA believed free trade agreement utilisation can be improved by increasing the professional development opportunities provided to freight forwarders and logistics service providers in respect to free trade agreement utilisation so they will provide “better advice and guidance to their SME exporter clients”.<sup>56</sup>

7.37 The FTA submitted that increased utilisation of trade agreements by SMEs could be achieved by:<sup>57</sup>

- i. Funding ongoing professional development opportunities for freight forwarders with a focus on export compliance and free trade agreements;
- ii. Increasing awareness of the role of freight forwarders within the SME community;
- iii. Providing grants for export strategy planning assistance;
- iv. Supporting the freight forwarding community in fostering SME export opportunities.

7.38 In 2017 Austrade funded a Freight & Trade Alliance and Australian Peak Shippers Association project to up-skill Australian customs brokers and freight forwarders in the North Asian free trade agreements. The FTA submitted the project, funded by a one-off grant of \$99,020, delivered moderate to advanced level content addressing free trade agreements and

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<sup>54</sup> Freight & Trade Alliance, *Submission 23*, p. 2.

<sup>55</sup> Freight & Trade Alliance, *Submission 23*, p. 2.

<sup>56</sup> Freight & Trade Alliance, *Submission 23*, p. 2.

<sup>57</sup> Freight & Trade Alliance, *Submission 23*, p. 2.

non-tariff barriers to trade as they relate to exports, to freight forwarders, customs brokers, as well as customised content that was made available to their SME exporter clients.<sup>58</sup>

- 7.39 While the FTA claimed the Austrade project was a “great success, with all milestones delivered”, it highlighted there are over 455 licensed customs brokerages across Australia listed on the Department of Home Affairs website, and more than over 1,000 licensed individual brokers.<sup>59</sup>

With the ever-evolving landscape of free trade agreements and the prospect of future changes to tariff regimes, more funding support is needed to ensure that all service providers have access to regular and ongoing professional development in this area.<sup>60</sup>

### **FTA voucher scheme to assist SME exporters access trade advice**

- 7.40 The Global Trade Professionals Alliance has submitted their support for the Australian Government offering an export voucher scheme for SME exporters to help cover some of their financial costs of professional advice similar to what the Government of Ireland offers its exporters.<sup>61</sup>

- 7.41 For a business looking to navigate their way through Brexit and who are unsure what to do next, the Irish Government’s equivalent of Austrade InterTradeIreland offers 100 per cent financial support up to £2000/€2000 (inclusive of VAT) towards professional advice in relation to Brexit matters, according to GTPA.<sup>62</sup>

This support can help a business get advice on specific issues such as movement of labour, goods, services and currency management.<sup>63</sup>

- 7.42 GTPA outlined the Ireland’s eligibility criteria for business to access the financial support:<sup>64</sup>

- The company must be a registered small business (250 employees or less) and either an annual turnover < €50m or Balance Sheet total <€43m.

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<sup>58</sup> Freight & Trade Alliance, *Submission 23*, p. 2.

<sup>59</sup> Freight & Trade Alliance, *Submission 23*, p. 2.

<sup>60</sup> Freight & Trade Alliance, *Submission 23*, p. 2.

<sup>61</sup> Global Trade Professionals Alliance, *Submission 22*, p. 11.

<sup>62</sup> Global Trade Professionals Alliance, *Submission 22*, p. 11.

<sup>63</sup> Global Trade Professionals Alliance, *Submission 22*, p. 11.

<sup>64</sup> Global Trade Professionals Alliance, *Submission 22*, p. 11.

- The assistance requested must relate to a cross-border issue
- The company must be a manufacturing or internationally tradable service companies

7.43 The GTPA recommends a similar FTA Voucher be introduced by the Australian government for MSMEs to access financial support to assist them to seek the right advice from consultants/ mentors specifically on accessing and utilising Australia's FTA network.

This should tie to the first recommendation to ensure that business has access to a trusted network of competent advisors with the right capabilities and technical knowledge.<sup>65</sup>

7.44 The GTPA also recommended that the Australian Government could tie the FTA Voucher scheme into the development of an FTA benefits bureau where those seeking detailed information can call an adviser.<sup>66</sup>

7.45 The Government should look outsource the operations of an FTA Bureau to a not for profit organisation focused on delivering international trade capability development.<sup>67</sup>

7.46 Chief Executive Officer, Global Trade Professionals Alliance, Ms Lisa McAuley, wanted the Australian Government to consider introducing a voucher scheme similar to Ireland's to help support businesses to get the right consulting support to export goods and services.<sup>68</sup>

The GTPA recommends a similar scheme could be introduced by Australian governments to basically assist the small to medium enterprises to access the right support from consulting service providers that can give them the technical knowledge that they need to help understand how to navigate and understand the benefits of FTAs.<sup>69</sup>

## Asialink Business recommendations to build capacity

7.47 Drawing on its extensive experience in supporting SMEs to expand or enter new export markets in Asia, Asialink Business through its partnership with the Department of Industry, Innovation and Science, outlined its six

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<sup>65</sup> Global Trade Professionals Alliance, *Submission 22*, p. 11.

<sup>66</sup> Global Trade Professionals Alliance, *Submission 22*, p. 11.

<sup>67</sup> Global Trade Professionals Alliance, *Submission 22*, p. 11.

<sup>68</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, pp. 8-9

<sup>69</sup> Ms Lisa McAuley, *Committee Hansard*, 2 August 2018, pp. 8-9

recommendations for consideration to build Asian capabilities across all sectors.

- 1 Seek to build-in and better integrate Asia capability training into domestic trade advocacy and efforts to promote utilisation of FTAs by SMEs. In particular, integrating existing Asia capability programs into FTA outreach, with a holistic approach spanning the spectrum of knowledge acquisition, awareness and capability/action.<sup>70</sup>
- 2 Ensure ongoing capability and capacity development adopts a 'whole-of export-journey' approach, in which FTA utilisation is contextualised within the broader journey from building awareness of international opportunities to successfully taking a product/service to a global market.<sup>71</sup>
- 3 Undertake more detailed research and mapping into how SMEs access export opportunities, including where FTAs are not utilised, and also the growing emergence of new and non-traditional export channels such as e-commerce platforms. These platforms such as Alibaba and JD.com are becoming increasingly popular platforms for Australian SMEs to sell into major markets like China.<sup>72</sup>
- 4 Continue to support an active trade advocacy agenda, and tailoring communication strategies that better target SMEs. Seek to communicate with SMEs via peak bodies or organisations that represent them or their sectors, by highlights business case studies and other success stories.<sup>73</sup>
- 5 Translate awareness of opportunities in Asia into real business action and outcomes, including support to distil the complexity associated with understanding 'Rules of Origin' (RoO) requirements for products and consideration of new innovative and digital 'single window' options to ease the burden on SMEs.<sup>74</sup>
- 6 Strengthen and prioritise building an Asia capable Australian workforce, including continued support for Asialink Business to ensure

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<sup>70</sup> Asialink Business, *Submission 17*, p. 6.

<sup>71</sup> Asialink Business, *Submission 17*, p. 6.

<sup>72</sup> Asialink Business, *Submission 17*, p. 6.

<sup>73</sup> Asialink Business, *Submission 17*, p. 6.

<sup>74</sup> Asialink Business, *Submission 17*, p. 7.

Australian SMEs are ready, and able to, engage with Asia and utilise free trade agreements.<sup>75</sup>

## Bolstering trade links for SMEs with Europe

7.48 Australian Business in Europe-France (ABIE-France) submitted that in order to succeed in France, Australian SME's would benefit from support which goes beyond the framework of a typical FTA. ABIE recommended the Government considers both 'tried and true' and new ways of supporting exporters including:<sup>76</sup>

- Mentoring programs involving the Australian expatriate business community in France which has extensive experience doing business in France.<sup>77</sup>
- Australian and French governmental cooperation to showcase Australian SMEs at major European events (for example VivaTech) in order to give legitimacy by association which is essential to success in France.<sup>78</sup>
- Targeted government-led delegations to France to visit strategic sites, make introductions and host seminars on doing business in France.<sup>79</sup>
- Austrade, DFAT and French government assistance with helping Australian businesses better understand the administrative culture and practice in France. Referrals to help SMEs to seek advice on French business culture and labour law would be beneficial.<sup>80</sup>
- Joint French and Australian government assistance for Australian SMEs currently headquartered in London needing to relocate to Europe following BREXIT. According ABIE-France, "Paris is one of the true global cities in Europe, with high quality infrastructure, skilled people, research incentives, excellent access to the rest of Europe and an unparalleled cultural and intellectual life".<sup>81</sup>
- Innovative Franco-Australian partnerships.

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<sup>75</sup> Asialink Business, *Submission 17*, p. 7.

<sup>76</sup> Australian Business in Europe (France), *Submission 38*, p. 2.

<sup>77</sup> Australian Business in Europe (France), *Submission 38*, p. 2.

<sup>78</sup> Australian Business in Europe (France), *Submission 38*, p. 2.

<sup>79</sup> Australian Business in Europe (France), *Submission 38*, p. 2.

<sup>80</sup> Australian Business in Europe (France), *Submission 38*, p. 2.

<sup>81</sup> Australian Business in Europe (France), *Submission 38*, p. 2.

- Having regard to the fact that SMEs are not often well-resourced or connected, ABIE-France wants better information for SMEs on:<sup>82</sup>
  - Useful websites publishing developments and opportunities in Europe in priority areas (noting the variety of French initiatives)
  - EU and WTO rules on tendering for projects in Europe
  - FTA advantages for SMEs.

7.49 ABIE-France believed Australian SMEs would benefit from “greater investment in language training and business and cultural exchange with France for startups, social businesses, freelance workers, graduates and executives”.<sup>83</sup>

Australia needs a strategy for identifying and promoting the right business here. Beyond this, SMEs need opportunities to be visible and support to appreciate the cultural and business context in Europe. This is as critical to their success as favourable trade terms.<sup>84</sup>

## Developing business networks between the EU and Australia

7.50 Ahead of any FTA with the EU, ABIE-France recommended that the Government confirms its strategic priority areas for exporting goods and services to Europe.<sup>85</sup>

Despite being a sophisticated market, there are areas where France can benefit from Australian goods and services. For example, Ramsay Healthcare has been successful in the French private medical clinic sector in France.<sup>86</sup>

7.51 The German Australian Business Council (GABC) is a business network based in Europe established two decades ago with both Australian and German companies as members to “foster long term relationships between Germany and Australia”.<sup>87</sup>

Aimed at advancing both company and individual pursuits, we communicate and catalyze opportunities through business networking and other activities.

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<sup>82</sup> Australian Business in Europe (France), *Submission 38*, p. 2.

<sup>83</sup> Australian Business in Europe (France), *Submission 38*, p. 2.

<sup>84</sup> Australian Business in Europe (France), *Submission 38*, p. 2.

<sup>85</sup> Australian Business in Europe (France), *Submission 38*, p. 1.

<sup>86</sup> Australian Business in Europe (France), *Submission 38*, p. 1.

<sup>87</sup> German Australian Business Council, *Submission 36*, p. 1.



The German Australian Business Council focuses on building relationships through business activities between Germany and Australia.<sup>88</sup>

7.52 The GABC supported the work of an international network of German chambers of commerce throughout the world. This network is funded mostly by membership fees but has some support from the German Federal Government and the European Union.<sup>89</sup>

7.53 One of the chambers is the German-Australian Chamber of Industry and Commerce (GACIC) based in Sydney with chapters in Melbourne and Brisbane.<sup>90</sup>

This international network is often the “first port of call” for German companies interested in exporting to other countries. The network provides information about exporting, local product standards, setting up companies and may provide additional services, such as the reclamation of GST. Several companies have reported that these chambers have been extremely helpful in establishing business through contacts as well as information and we know that this engagement has been part of the success in Germany’s export led economy.<sup>91</sup>

7.54 GACIC submitted its role for German business in Australia and representing more than 900 companies active in bilateral business relationships.<sup>92</sup>

These companies represent a variety of industry sectors and are particularly small to medium-sized enterprises (SMEs) and medium-sized German companies (“Mittelstand”).<sup>93</sup>

The GACIC supports a free trade and investment environment and is committed to deepening economic links and business exchanges between Australia, Germany and the European Union as well as the wider Inda-Pacific region.<sup>94</sup>

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<sup>88</sup> German Australian Business Council, *Submission 36*, pp. 1-2.

<sup>89</sup> German Australian Business Council, *Submission 36*, p. 4.

<sup>90</sup> German Australian Business Council, *Submission 36*, p. 4.

<sup>91</sup> German Australian Business Council, *Submission 36*, p. 4.

<sup>92</sup> German-Australian Chamber of Industry and Commerce, *Submission 21*, p. 1.

<sup>93</sup> German-Australian Chamber of Industry and Commerce, *Submission 21*, p. 1.

<sup>94</sup> German-Australian Chamber of Industry and Commerce, *Submission 21*, p. 1.

- 7.55 The GACIC called for any information for SMEs about relevant tariff barriers, including the reduction and removal of tariff barriers, to be “easily accessible through credible and reliable sources”.<sup>95</sup>

In respect of non-tariff trade barriers, it is conducive to the success of FTA's that all relevant regulations are SME-friendly. Key aspects include using plain English in the FTA's, having low documentation requirements and including country-of-origin regulations that are SME friendly. As SMEs are usually not equipped to establish separate compliance departments, it is critical that relevant regulations are easily understandable and applicable for the business owner or business development manager interested in possible international trade opportunities.<sup>96</sup>

- 7.56 To find opportunities for Australian exporters, ABIE-France believed a comprehensive analysis of Australian SME capability is required to identify areas where Australian companies have developed niche technologies or services with a potential to develop in Europe.<sup>97</sup>

## Impact of migration policies and diaspora on trade

- 7.57 Mr Jonathon Cheng's 2016 report *Engaging Diasporas: The case of Australia and other key countries* drew upon an academic definition of diaspora by academics Agunias and Newland describing diasporas as emigrants and their descendants who live outside the country of their birth and ancestry, either on a temporary or permanent basis, yet still maintain affective and material ties to their countries of origin that they identify with.<sup>98</sup>
- 7.58 Mr Cheng's report noted that in the past, technology and distance often played an inhibiting role in preventing diasporas from connecting effectively with their 'homelands'.<sup>99</sup>

More recently however, and particularly in the past two to three decades, the communications revolution and rapid transformation of transportation has made it much easier for people to migrate and explore international linkages and business opportunities. This has entailed members of diasporas

<sup>95</sup> German-Australian Chamber of Industry and Commerce, *Submission 21*, p. 1.

<sup>96</sup> German-Australian Chamber of Industry and Commerce, *Submission 21*, pp. 1-2.

<sup>97</sup> Australian Business in Europe (France), *Submission 38*, p. 1.

<sup>98</sup> Cheng, J. (2016). *Engaging Diasporas: The case of Australia and other key countries*. Report on behalf of the Australian Council of Learned Academies, [www.acola.org.au](http://www.acola.org.au), p. 3.

<sup>99</sup> Cheng, J. (2016). *Engaging Diasporas: The case of Australia and other key countries*. Report on behalf of the Australian Council of Learned Academies, [www.acola.org.au](http://www.acola.org.au), p. 3.

attempting to utilise their cross-cultural skills to their own benefit, often developing people-to-people links across diverse sectors including business, trade and science.<sup>100</sup>

- 7.59 Professor Fazal Rizvi from the University of Melbourne explained in an article based on his joint report *Australia's Diaspora Advantage* in 2016 that "immigration no longer necessarily involves an expectation of permanent detachment from an immigrant's country of origin".<sup>101</sup>

Dual and even multiple citizenships have now become available to many Australians. Furthermore, an increasing proportion of immigrants to Australia from Asia are highly skilled, often at a very high level. Many come to Australia not only with intellectual but also financial resources, prepared to invest in both local and global enterprises.<sup>102</sup>

- 7.60 Professor Rizvi highlighted the path from international education to migration has now become a well-trodden one.<sup>103</sup>

The decision of many Asians to migrate to Australia is also now much better informed than ever before, as indeed is the ability of immigrants to remain connected with friends and family at home and elsewhere, using new communication and transport technologies. Many Chinese-Australians, for example, spend an average of two to three hours each day on WeChat or Weibo. This enables them to keep up with social trends and remain in touch with economic and political developments in China.<sup>104</sup>

- 7.61 Mr Cheng's report supported development of a diaspora engagement strategy and to leverage the knowledge of immigrants of their countries of origin. The report stated diasporas in Australia can play a key role in trade, investment, and skills and knowledge transfer.<sup>105</sup>

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<sup>100</sup> Cheng, J. (2016). *Engaging Diasporas: The case of Australia and other key countries*. Report on behalf of the Australian Council of Learned Academies, [www.acola.org.au](http://www.acola.org.au), p. 3.

<sup>101</sup> Rizvi, F. Professor, *Australia's Diaspora Advantage*, Journal & Proceedings of the Royal Society of New South Wales, vol. 150, part 1, 2017, p. 111.

<sup>102</sup> Rizvi, F. Professor, *Australia's Diaspora Advantage*, Journal & Proceedings of the Royal Society of New South Wales, vol. 150, part 1, 2017, p. 111.

<sup>103</sup> Rizvi, F. Professor, *Australia's Diaspora Advantage*, Journal & Proceedings of the Royal Society of New South Wales, vol. 150, part 1, 2017, p. 111.

<sup>104</sup> Rizvi, F. Professor, *Australia's Diaspora Advantage*, Journal & Proceedings of the Royal Society of New South Wales, vol. 150, part 1, 2017, pp. 111-112.

<sup>105</sup> Cheng, J. (2016). *Engaging Diasporas: The case of Australia and other key countries*. Report on behalf of the Australian Council of Learned Academies, [www.acola.org.au](http://www.acola.org.au), p. 5.

Diaspora members create connections between producers and consumers in countries of origin (COO) and country of residence (COR), as well as introduce products from a country of origin to new markets. Diasporas invest directly in their CORs, and can also share valuable market information about their COO with entrepreneurs and firms in their COR. The 'immigrant effect' explains how firms founded by immigrants, or who have immigrants in key decision-making processes, are more likely to enter foreign markets.<sup>106</sup>

- 7.62 Mr Cheng's report stated the presence of a "prominent diaspora can arguably have a strong positive economic effect, irrespective of policy settings or frameworks".<sup>107</sup>

Evidence is particularly strong in the case of the Chinese diaspora, where a number of studies have shown that overseas Chinese co-ethnic networks can facilitate trade and foreign direct investment (FDI). For example, an empirical study showed that between 1970 and 2010 the Chinese diaspora "exerted a statistically and economically significant effect on host countries' long-run economic growth" through increasing trade openness by 31 per cent, enhancing investment by 18 per cent, and increasing total factor productivity by 51 per cent (Priebe & Rudolf 2015)<sup>108</sup>

- 7.63 Mr Sean Keenihan, the President of South Australia Branch of the Australia China Business Council believes sympathetic migration policies can help states such as South Australia and regional areas attract SMEs.<sup>109</sup>

...keep open and have differentiated migration pathways for people who economically contribute to the growth of small business, particularly in places like South Australia.<sup>110</sup>

- 7.64 Ms Judy Zhu, the General Manager of the Australia (Melbourne) Exhibition Centre, wants more focus on education about FTAs and also better understanding of the cultural and business differences between Australia and trading partners.<sup>111</sup>

<sup>106</sup> Cheng, J. (2016). *Engaging Diasporas: The case of Australia and other key countries*. Report on behalf of the Australian Council of Learned Academies, [www.acola.org.au](http://www.acola.org.au), p. 5.

<sup>107</sup> Cheng, J. (2016). *Engaging Diasporas: The case of Australia and other key countries*. Report on behalf of the Australian Council of Learned Academies, [www.acola.org.au](http://www.acola.org.au), p. 5.

<sup>108</sup> Cheng, J. (2016). *Engaging Diasporas: The case of Australia and other key countries*. Report on behalf of the Australian Council of Learned Academies, Melbourne, Australia, [www.acola.org.au](http://www.acola.org.au), p. 5.

<sup>109</sup> Mr Sean Keenihan, *Committee Hansard*, 3 August 2018, p. 11.

<sup>110</sup> Mr Sean Keenihan, *Committee Hansard*, 3 August 2018, p. 11.

<sup>111</sup> Ms Judy Zhu, *Committee Hansard*, 30 July 2018, p. 18.

We need more education sessions to educate these businesses and also more supportive policies to encourage local businesses to go to overseas markets to learn their cultures and also more relaxed immigration or whatever policies to encourage businesses from overseas to come here.<sup>112</sup>

- 7.65 Mr Simon Yeh, President, Australian Taiwanese Chamber of Commerce (QLD) Inc. outlined how the ATCC was actively encouraging closer links between mostly Taiwanese businesses in Australia and Taiwan.<sup>113</sup>

The Australian Taiwanese Chamber of Commerce is mostly involved with Taiwanese businesses. Last year we went back to Taiwan with the Ipswich mayor for a trip to build business and cultural relationships. We do that on an ongoing basis now, so if anyone's interested in going back to Taiwan for a business trip they can get us to get involved and we can help them to connect with small businesses and government councils.<sup>114</sup>

- 7.66 Mr Yeh says a lot of ATCC members have Taiwanese origins and also are involved in import-export trade with Asian markets.

To a certain extent, the Taiwanese government has been pushing a lot of business to come into Australia with their new policy. So one of the things that we have been focused on is encouraging Australian businesses to promote business here and helping businesses in Taiwan to come here and establish themselves. So we've got banks coming over, and I believe there were some food exports and imports here. That's what we are mainly focused on at this stage.<sup>115</sup>

- 7.67 Mr Chris James, Executive Director, NORTH Link, which is the umbrella business networking body for Melbourne's north, saw advantages from forging closer trade links between an ethnic diaspora living in Australia and their countries of origin.

We've taken members to trade shows in Thailand and Dubai, and we've also hosted an inbound delegation from Chongqing in China. We've also developed relationships with local Chinese traders who trade goods back to China as well as through Chinese business networks locally.<sup>116</sup>

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<sup>112</sup> Ms Judy Zhu, *Committee Hansard*, 30 July 2018, p. 18.

<sup>113</sup> Mr Simon Yeh, *Committee Hansard*, 23 July 2018, p. 2.

<sup>114</sup> Mr Simon Yeh, *Committee Hansard*, 23 July 2018, p. 2.

<sup>115</sup> Mr Simon Yeh, *Committee Hansard*, 23 July 2018, pp. 4-5.

<sup>116</sup> Mr Chris James, *Committee Hansard*, 30 July 2018, p. 3.

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**Recommendation 10**

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- 7.68** The Committee recommends that the Australian Government commissions an audit into the untapped human capacity of Australian nationals living and working overseas and Australia's multi-ethnic diasporas living and working in Australia and their related chambers and associations with a view to formulating a strategy to unlock that capacity to advance Australia's interests, including opportunities for Australian small and medium enterprises.

**Mr Ted O'Brien MP**

**Chair**

**Trade Sub-Committee**

13 February 2019

**Senator the Hon Ian Macdonald**

**Chair**

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

13 February 2019

# A. Oral submissions

## Monday, 23 July 2018

*Meeting Room, Suite 106  
Sunnybank Times Square  
250 McCullough St, Sunnybank*

- Mr Lionel Barden, Managing Director, Eco Energy Group Ltd
- Mr Anthony Greer, Chief Executive Officer, Medi-Ice Pak Australia
- Mr Ross McKinnon, Chairman and Owner, GJR Technologies Pty Ltd trading as Grabba International
- Mrs Anne Nalder, Founder and CEO, Small Business Assoc. of Australia
- Ms Deidre (Grace) Paul, Company Director, People in Plastic
- Mr Graham Paul, Company Director, People in Plastic
- Mr Peter Shearer, Director, Cory Johnston (Aust) Pty Ltd
- Mr Jack Sun, Managing Director, Natural Pharmaceuticals Australia Pty
- Mr Simon Yeh, President, Australian Taiwanese Chamber of Commerce (QLD) Inc.

## Monday, 23 July 2018

*Committee Room 2  
Parliament of Queensland's Parliamentary Annexe  
Corner of George and Alice St, Brisbane*

- Ms Angie Flecknoe, Export Manager, Bevco Pty Ltd
- Mrs Annette LeBlang, Operations Manager, Bevco Pty Ltd
- Mrs Clare Sykes, General Manager, International Markets, METS Ignited Australia Ltd
- Mr Michael Tristram, Chief Executive Officer, Trisco Foods Pty Ltd

## Tuesday, 24 July 2018

The Ginger Factory

50 Pioneer Road

Yandina, Sunshine Coast

- Mr Nicholas Alford, Consultant, Export, Buying Project
- Mr Lloyd Bartlett, Chief Executive Officer, Country Chef Bakery
- Mr Andrew Bond, Chief Executive Officer, Buderim Group Limited
- Mr Michael Clauson, Relationship Manager, ANZ Business Bank
- Mr Andrew Eves-Brown, Chief Executive Officer, COYO
- Ms Emma Greenhatch, General Manager, Food and Agribusiness Network
- Mr Paul Martins, Head of Economic Development, Sunshine Coast Council
- Mrs Natalie Skrepetis, Business Manager, Jacob's Well Noosa
- Mr Craig Smith, Head of Sales Asia, Botanical Food Company
- Ms Monica Topliss, Director, The Gluten Free Food Co.
- Mr Jason Valusaga, Consultant, University of the Sunshine Coast

## Monday, 30 July 2018

The Pear Room

Mercure Melbourne Treasury Gardens, 13 Spring St, Melbourne

*Australian Industry Group*

- Ms Louise McGrath, National Manager, Business and International Advisory Services, Australian Industry Group

*Roundtable 1*

- Mr Philip Bateman, General Manager, Bravo Charlie
- Ms Liz Griffin, Executive Director, Australia-Korea Business Council
- Mr Hugh Horsfall, Manager, Economics and Industry Policy, Victorian Chamber of Commerce and Industry
- Ms Jenny Kang, Trade Manager, Korea Trade-Investment Promotion Agency
- Ms Ivana Manwin, Roberts Gray Lawyers
- Mr Paul Molenaar, Director, Compliance Experts
- Mr Alan Oppenheim, Managing Director, Ego Pharmaceuticals Pty Ltd



- Mr Rhys Roberts, Managing Director and Senior Partner, Roberts Gray Lawyers
- Hon. Ken Smith, AM, President, Australia China Business Council Victoria
- Mr Nick Tang, Director, Evertang Group
- Mr Simon Woolmer, Government Relations Manager, Australia and NZ, Swisse Wellness
- Mr Richard Yuan, Managing Director, ICG Groups Pty Ltd
- Ms Judy Zhu, General Manager, Australia (Melbourne) Exhibition Centre

### *Roundtable 2*

- Mr Travis Brooks-Garrett, Director, Freight and Trade Alliance; and Secretariat, Australian Peak Shippers Association
- Dr Giovanni (John) Di Lieto, Monash Business School, Monash University
- Professor Gabriele Suder, Private capacity
- Dr David Treisman, Monash Business School, Monash University
- Mr Russell Wiese, General Counsel, Freight and Trade Alliance; and Principal, Hunt and Hunt Lawyers
- Ms Claire S Willette, CEO, Australian Industry & Defence Network-Victoria

## **Monday, 30 July 2018**

The Hume City Council Chambers  
1079 Pascoe Vale Rd  
Broadmeadows

- Mr Adem Genc, Business Development Manager, Picnic Dairy Foods
- Mr Chris James, Executive Director, NORTH Link
- Mrs Connie Manglaviti, Marketing and Product Development, Naturally Good Products Pty Ltd
- Mr Pietro Pace, Director, Arfoods Group
- Councillor Geoff Porter, Mayor, Hume City Council
- Ms Barbara Wickham, Business Development Manager, ICAL
- Mr William Woon, Business Development Executive, Yin Kwee Trading Pty Ltd

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**Tuesday, 31 July 2018**

The Griffith City Council Chambers  
1 Benerembah Street, Griffith

- Ms Leanne Austin, Economic Development Officer, Griffith City Council
- Mr Bill Calabria, AM, Calabria Family Wines
- Mr John Collins, Managing Director, Agricultural Tours Riverina
- Councillor John Dal Broi, Mayor of Griffith City
- Mr Vito Mancini, Director, Redbelly Citrus
- Mr Paul Pearsall, Managing Director, Australian Grain Link Pty Ltd
- Mr Mathew Ryan, Managing Director, Murray Cod Australia
- Mr Leon Skaliotis, Sales and Marketing Director, Flavourtech

**Wednesday, 1 August 2018**

Large Meeting Room  
New Space, City Campus-University of Newcastle  
Newcastle

*University of Newcastle introduction to the Hunter Region economy*

- Dr Anthea Bill, Hunter Research Foundation Centre, Faculty of Business and Law, University of Newcastle
- Professor Will Rifkin, Director and Chair in Applied Regional Economics, Hunter Research Foundation Centre, Faculty of Business and Law, University of Newcastle

*Roundtable 1*

- Ms Kari Armitage, Vice Chair, HunterNet; and Managing Director, Quarry Mining
- Ms Leigh Bryant, Principal, Scorpion International
- Dr Gunilla Burrowes, Chair and Founder, Eighteen04 Inc. and BlueZone Group
- Mr Wayne Diemar, Project Director, HunterNet
- Mr Ian Doherty, Executive Manager, Customer and Strategic Planning, Port of Newcastle
- Mr Bob Hawes, Chief Executive Officer, Hunter Business Chamber
- Mr Christopher Kelleher, Business Advisor, ICT and Professional services, Ai Group

*Roundtable 2*

- Mr Adam Amos, Managing Director, Robotic Systems

- Mr Larry Botham, Chief Executive, Bioaction Pty Ltd
- Mr Nathan Cater, Managing Director, Masterol Foods
- Mr Murray Drake, Purchasing and Procurement Manager, DSI Underground
- Mr Robert Gauta, General Manager, Commercial Fishermen's Cooperative Ltd
- Mr Greg Gocher, Project Manager, Maritime/Ship Repair, Thales Australia
- Mr Ian Hedley, Managing Director, Hedweld Group of Companies
- Mr Larry Platt, Executive Chairman, Advitech Group
- Dr Greg Whiteley, Executive Chairman, Whiteley Corporation

## **Thursday, 2 August 2018**

Northcott Room

SMC Conference & Function Centre

66 Goulburn St, Sydney

- Mr Doug Ferguson, Partner in Charge, Asia and International Markets, and Deals Advisory Partner, KPMG
- Ms Lisa McAuley, Chief Executive Officer, Global Trade Professionals Alliance
- Ms Alison Airey, Chief Executive Officer, New South Wales Branch, Australia China Business Council
- Ms Alina Bain, Chief Executive Officer, Export Council of Australia
- Mr Heath Baker, Head of Policy, Export Council of Australia
- Mr Peter Strong, Chief Executive Officer, Council of Small Business Organisations of Australia
- Associate Professor Mark Melatos, Private capacity
- Mr Gary Dawes, Senior Trade Consultant, International Trade, NSW Business Chamber
- Mr Mark Hardy, Director, Australia-Taiwan Business Council Ltd
- Mr Warren Cross, Senior Legal Counsel, Cross & Co Lawyers
- Mr Troy Williams, Chief Executive Officer, Australian Dental Industry Association

**Friday, 3 August 2018**

The Kingston Room

Parliament of South Australia, Adelaide

- Mrs Nancy Emil, Manager, Migration and Trade, Business SA
- Mr Sean Keenihan, President, South Australia Branch, Australia China Business Council
- Ms Olga Kostic, Export Adviser, Business SA
- Mr Philip Marley, Director, Export Council of Australia
- Mr Andrew McKenna, Senior Policy Adviser, Business SA
- Mr Andrew Hunter, General Manager for China Engagement, Port Adelaide Football Club
- Mr John Reeves Taylor, Senior Consultant, EMDG Consulting

**Thursday, 4 October 2018**

Townsville Enterprise Limited

6 The Strand, Townsville City

- Mr Lindsay Allen, BMP Facilitator, Growcom
- Mr John Freeston, Honeycombes Engineering
- Mr Greg Jackson, Director, RGM Maintenance
- Mr John Kaus, Managing Director, Karumba Livestock Exports; and Chairman, South East Asia Livestock Services
- Mr Roger Kaus, Principal Trade and Investment Officer, Trade and Investment Queensland
- Mr Michael Kopittke, Board Manager, Townsville Chamber of Commerce
- Mr Warren Males, Head, Economics, CANEGROWERS
- Mr Ben McMahon, Owner, North Queensland Customs Services; and Owner, Tropical Containers
- Mr Michael McMillan, Director, Policy and Investment, Townsville Enterprise Ltd
- Mr Peter Petersen, Senior Business Banking Manager, National Australia Bank
- Mr David Rynne, Director, Policy, Economics and Trade, Australian Sugar Milling Council
- Ms Glenys Schuntner, Chief Executive Officer, Regional Development Australia Townsville and North West Queensland Inc.

- Mr Nicholas Whebell, Business Development Manager, Cleveland Bay Chemical Company
- Ms Mel Woon, Executive Officer, Australian Industry and Defence Network Queensland

## **Monday, 15 October 2018**

Committee Room 2S3

Parliament House

Canberra

- Mr Greg Corra, Managing Director, Inland Trading Company
- Mr James Hudson, Director, Government Relations, Corporate Affairs and Marketing, Alibaba Group-Australia and New Zealand



## B. Written submissions

- 1 Ego Pharmaceuticals
- 2 Victorian Chamber of Commerce and Industry
- 3 Professor Gabriele Suder
- 4 KPMG
- 5 Assoc. Professor Mark Melatos
  - 5.1 Supplementary to submission 5
- 6 Winemakers' Federation of Australia
- 7 Dr Giovanni Di Lieto & Dr David Treisman
- 8 Innovation & Science Australia
- 9 Sunshine Coast Council
- 10 Luckypole Ltd
- 11 Professor Kym Anderson-Wine Economics Research Centre
- 12 Department of Foreign Affairs and Trade, Austrade & Efic
  - 12.1 Supplementary to submission 12
  - 12.2 Supplementary to submission 12
- 13 *Confidential*
- 14 Australian Small Business and Family Enterprise Ombudsman
- 15 Business SA
- 16 Yumbah Aquaculture Ltd
- 17 Asialink Business
- 18 Chamber of Commerce and Industry of Western Australia

- 19 Cross and Co Lawyers
- 20 Australian Pork Ltd
- 21 German-Australian Chamber of Industry and Commerce
- 22 Global Trade Professionals Alliance (GTPA)
- 23 Freight & Trade Alliance
- 24 Export Council of Australia
- 25 Australian Industry & Defence Network
- 26 Council of Small Business Organisations of Australia
- 27 Defence Teaming Centre Inc
- 28 Australian Chamber of Commerce and Industry
- 29 Australian Dental Industry Association
- 30 Government of South Australia
- 31 Department of Industry, Innovation and Science and Department of Jobs and Small Business
  - 31.1 Supplementary to submission 31
  - 31.2 Supplementary to submission 31
- 32 Australia-Taiwan Business Council Ltd
- 33 Grain Growers Limited
- 34 Australian Industry Group
- 35 Victorian Government
- 36 The German Australia Business Council
- 37 Mr Lionel Barden
- 38 Australian Business in Europe (France)
- 39 DSI Underground
- 40 NORTH Link
- 41 Australian Sugar Milling Council
- 42 Department of Agriculture and Water Resources



## C. Exhibits

- 1 Austrade, Combined Austrade DFAT Presentation for Customs Brokers and Forwarding Council of Australia
- 2 Austrade, Using FTAs to reduce the landed cost of your exports
- 3 Austrade, Austrade FTA Checklist for customs brokers and freight forwarders
- 4 Austrade, Advertising/Media on FTA seminar in Sydney, NSW
- 5 Austrade, Advertising/Media on FTA seminars in Logan and Ipswich, Queensland
- 6 Austrade, Advertising/Media on FTA seminar in Cairns, Queensland
- 7 Austrade, Advertising/Media on FTA seminar in Canberra, ACT
- 8 Austrade, Advertising/Media on FTA seminar in Tamworth, NSW
- 9 Austrade, Advertising/Media on FTA seminar in Dubbo, NSW
- 10 Australian Chamber of Commerce and Industry, Trade Community System Report
- 11 Assoc. Professor Mark Melatos, Summary of some recent papers on the measurement of services trade
- 12 Inland Trading Company, Compilation of documentation requirements to export wine to FTA partners Korea, Thailand, Japan, China and ASEAN
- 13 Australian Small Business and Family Enterprise Ombudsman, ASBFEO report on Affordable capital for SME growth



## D. Public hearings

### Monday, 25 June 2018

Committee Room 1R5  
Parliament House, Canberra

*Department of Foreign Affairs and Trade*

- Mr Lachlan Crews, Assistant Secretary—Trade and Investment Advocacy Branch
- Mr Todd Mercer, Assistant Secretary—FTA Policy and Implementation Branch

*Australian Trade and Investment Commission (Austrade)*

- Ms Sally Louise Phillips, Manager Free Trade Agreement Program
- Ms Kelly Ralston, Chief Client Officer

### Monday, 23 July 2018

Meeting Rm, Suite 106 Sunnybank Times Square  
250 McCullough St, Sunnybank

*Roundtable*

- Mr Lionel Barden, Managing Director, Eco Energy Group Ltd
- Mr Anthony Greer, Chief Executive Officer, Medi-Ice Pak Australia
- Mr Ross McKinnon, Chairman, GJR Technologies trading as Grabba International
- Mrs Anne Nalder, Chief Executive Officer, Small Business Association of Australia
- Ms Deidre (Grace) Paul, Company Director, People in Plastic

- Mr Graham Paul, Company Director, People in Plastic
- Mr Peter Shearer, Director, Cory Johnston (Aust) Pty Ltd
- Mr Jack Sun, Managing Director, Natural Pharmaceuticals Australia Ltd
- Mr Simon Yeh, President, Australian Taiwanese Chamber of Commerce (QLD) Inc.

## Monday, 23 July 2018

Committee Room 2

Parliament of Queensland's Parliamentary Annexe

Corner of George and Alice St, Brisbane

### *Roundtable*

- Ms Angie Flecknoe, Export Manager, Bevco Pty Ltd
- Mrs Annette LeBlang, Operations Manager, Bevco Pty Ltd
- Mrs Clare Sykes, General Manager, International Markets, METS Ignited Australia Ltd
- Mr Michael Tristram, Chief Executive Officer, Trisco Foods Pty Ltd

## Tuesday, 24 July 2018

The Ginger Factory

50 Pioneer Road

Yandina, Sunshine Coast

### *Roundtable*

- Mr Nicholas Alford, Consultant, Export, Buying Project
- Mr Lloyd Bartlett, Chief Executive Officer, Country Chef Bakery
- Mr Andrew Bond, Chief Executive Officer, Buderim Group Limited
- Mr Michael Clauson, Relationship Manager, ANZ Business Bank
- Mr Andrew Eves-Brown, Chief Executive Officer, COYO
- Ms Emma Greenhatch, General Manager, Food and Agribusiness Network
- Mr Paul Martins, Head of Economic Development, Sunshine Coast Council
- Mrs Natalie Skrepetis, Business Manager, Jacob's Well Noosa
- Mr Craig Smith, Head of Sales Asia, Botanical Food Company
- Ms Monica Topliss, Director, The Gluten Free Food Co.
- Mr Jason Valusaga, Consultant, University of the Sunshine Coast

## Monday, 30 July 2018

The Pear Room

Mercure Melbourne Treasury Gardens

13 Spring St, Melbourne

*Australian Industry Group*

- Ms Louise McGrath, National Manager, Business and International Advisory Services

### *Roundtable 1*

- Ms Nicole Andrews, Regional Specialist, North East Asia, Trade Victoria
- Mr Philip Bateman, General Manager, Bravo Charlie
- Ms Liz Griffin, Executive Director, Australia-Korea Business Council
- Mr Hugh Horsfall, Manager, Economics and Industry Policy, Victorian Chamber of Commerce and Industry
- Ms Jenny Kang, Trade Manager, Korea Trade-Investment Promotion Agency
- Ms Louise McGrath, National Manager, Business and International Advisory Services, Australian Industry Group
- Ms Ivana Manwin, Roberts Gray Lawyers
- Mr Paul Molenaar, Director, Compliance Experts
- Mr Alan Oppenheim, Managing Director, Ego Pharmaceuticals Pty Ltd
- Mr Rhys Roberts, Managing Director and Senior Partner, Roberts Gray Lawyers
- Hon. Ken Smith, AM, President, Australia China Business Council Victoria
- Mr Nick Tang, Director, Evertang Group
- Mr Simon Woolmer, Government Relations Manager, Australia and New Zealand, Swisse Wellness
- Mr Richard Yuan, Managing Director, ICG Groups Pty Ltd
- Ms Judy Zhu, General Manager, Australia (Melbourne) Exhibition Centre

### *Roundtable 2*

- Mr Travis Brooks-Garrett, Director, Freight and Trade Alliance; and Secretariat, Australian Peak Shippers Association
- Ms Ylva Carosone, Acting Deputy Secretary, Trade Victoria
- Dr Giovanni (John) Di Lieto, Monash University, Business School

- Professor Gabriele Suder, Private capacity
- Dr David Treisman, Monash Business School, Monash University
- Mr Russell Wiese, General Counsel, Freight and Trade Alliance; and Principal, Hunt and Hunt Lawyers
- Ms Claire S Willette, CEO, Australian Industry and Defence Network

## **Monday, 30 July 2018**

The Hume City Council Chambers  
1079 Pascoe Vale Rd, Broadmeadows

### *Roundtable*

- Mr Adem Genc, Business Development Manager, Picnic Dairy Foods
- Mr Chris James, Executive Director, NORTH Link
- Mrs Connie Manglaviti, Marketing and Product Development, Naturally Good Products Pty Ltd
- Mr Pietro Pace, Director, Arfoods Group
- Councillor Geoff Porter, Mayor, Hume City Council
- Ms Barbara Wickham, Business Development Manager, ICAL
- Mr William Woon, Business Development Executive, Yin Kwee Trading Pty Ltd

## Tuesday, 31 July 2018

The Griffith City Council Chambers  
1 Benerembah Street  
Griffith

### *Roundtable*

- Ms Leanne Austin, Economic Development Officer, Griffith City Council
- Mr Bill Calabria, AM, Managing Director, Calabria Family Wines
- Mr John Collins, Managing Director, Agricultural Tours Riverina
- Councillor John Dal Broi, Mayor of Griffith City
- Ms Nicola James, Department of Industry Innovation and Science
- Mr Vito Mancini, Director, Redbelly Citrus
- Mr Paul Pearsall, Managing Director, Australian Grain Link Pty Ltd
- Mr Mathew Ryan, Managing Director, Murray Cod Australia
- Mr Leon Skaliotis, Sales and Marketing Director, Flavourtech

## Wednesday, 1 August 2018

Meeting Room  
New Space, City Campus-University of Newcastle  
Corner Hunter & Auckland Streets  
Newcastle

### *University of Newcastle introduction to the Hunter economy*

- Professor Will Rifkin, Director and Chair in Applied Regional Economics,
  - Hunter Research Foundation Centre, Faculty of Business and Law, University of Newcastle; and
- Dr Anthea Bill, Lead Economist,
  - Hunter Research Foundation Centre, Faculty of Business and Law, University of Newcastle

### *Roundtable 1*

- Ms Kari Armitage, Vice Chair, HunterNet; and Managing Director, Quarry Mining.
- Ms Leigh Bryant, Principal, Scorpion International
- Dr Gunilla Burrowes, Chair and Founder, Eighteen04 Inc. & BlueZone Group
- Mr Wayne Diemar, Project Director, HunterNet

- Mr Ian Doherty, Executive Manager, Customer and Strategic Planning, Port of Newcastle
- Mr Bob Hawes, Chief Executive Officer, Hunter Business Chamber
- Mr Christopher Kelleher, Business Advisor, ICT and Professional services, Ai Group

#### *Roundtable 2*

- Mr Adam Amos, Managing Director, Robotic Systems
- Mr Larry Botham, Chief Executive, Bioaction Pty Ltd
- Mr Nathan Cater, Managing Director, Masterol Foods
- Mr Murray Drake, Purchasing and Procurement Manager, DSI Underground
- Mr Robert Gauta, General Manager, Commercial Fishermen's Cooperative Ltd
- Mr Greg Gocher, Project Manager, Maritime/Ship Repair, Thales Aust.
- Mr Ian Hedley, Managing Director, Hedweld Group of Companies
- Mr Larry Platt, Executive Chairman, Advitech Group
- Dr Greg Whiteley, Executive Chairman, Whiteley Corporation

### **Thursday, 2 August 2018**

Northcott Room - SMC Conference & Function Centre  
66 Goulburn St, Sydney

#### *KPMG*

- Mr Doug Ferguson, Partner in Charge, Asia and International Markets, and Deals Advisory Partner

#### *Global Trade Professionals Alliance*

- Ms Lisa McAuley, Chief Executive Officer

#### *Council of Small Business Organisations of Australia*

- Mr Peter Strong, Chief Executive Officer

#### *Export Council of Australia*

- Ms Alina Bain, Chief Executive Officer
- Mr Heath Baker, Head of Policy

#### *Australia China Business Council – NSW*



- Ms Alison Airey, Chief Executive Officer, New South Wales Branch, Australia China Business Council

*Export Finance and Insurance Corporation*

- Mr John Hopkins, Chief Operating Officer, and General Counsel
- Mr John Pacey, Chief Credit Officer

*Associate Professor Mark Melatos, Private capacity*

*Australia-Taiwan Business Council Ltd*

- Mr Mark Hardy, Director

*NSW Business Chamber*

- Mr Gary Dawes, Senior Trade Consultant, International Trade

*Cross & Co Lawyers*

- Mr Warren Cross, Senior Legal Counsel

*Australian Dental Industry Association*

- Mr Troy Williams, Chief Executive Officer

## **Friday, 3 August 2018**

The Kingston Room

Parliament of South Australia

Adelaide

*Business SA*

- Mrs Nancy Emil, Manager, Migration and Trade
- Ms Olga Kostic, Export Adviser
- Mr Andrew McKenna, Senior Policy Adviser

*Australia China Business Council-SA*

- Mr Sean Keenihan, President, South Australia Branch

*Export Council of Australia-SA*

- Mr Philip Marley, Director

*Port Adelaide Football Club*

- Mr Andrew Hunter, General Manager for China Engagement

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*EMDG Consulting*

- Mr John Reeves Taylor, Senior Consultant

*Government of South Australia*

- Mr Scott Kompo-Harms, Chief of Staff, Minister for Trade, Tourism and Investment
- Ms Megan Antcliff, Deputy Chief Executive, Department of Trade, Tourism and Investment
- Mr David Blackstock, General Manager, Policy, Department of Trade, Tourism and Investment
- Mr Todd Miller, General Manager, International Trade, Department of Trade, Tourism and Investment
- Mr Lino Strangis, Executive Director, International Engagement, Department of Trade, Tourism and Investment
- Mr John Chapman, Small Business Commissioner, South Australia

**Monday, 13 August 2018**

Committee Room 1R5  
Parliament House  
Canberra

*Australian Chamber of Commerce and Industry*

- Mr Bryan Clark, Director, Trade and International Affairs

**Monday, 20 August 2018**

Committee Room 1R5  
Parliament House  
Canberra

*The Department of Jobs and Small Business*

- Mr Evan Holley, Director, Deregulation and Small Business Branch, Small Business and Economic Strategy Group
- Ms Rose Verspaandonk, Branch Manager, Deregulation and Small Business Branch, Small Business and Economic Strategy Group

*The Department of Industry, Innovation and Science*

- Mr Martin Squire, General Manager, Trade and International Branch

- Dr Abrie Swanepoel, Manager, Insights and Evaluation Branch

## **Monday, 10 September 2018**

Committee Room 1R5  
Parliament House  
Canberra

*Winemakers' Federation of Australia*

- Mr Anthony Battaglione, Chief Executive

## **Monday, 17 September 2018**

Committee Room 1R5  
Parliament House  
Canberra

*The Department of Agriculture and Water Resources*

- Ms Barbara Cooper, Assistant Secretary, Meat Exports Branch, Exports Division
- Mr Simon Smalley, Assistant Secretary, Strategic Trade Policy Branch, Trade and Market Access Division

## **Thursday, 4 October 2018**

Townsville Enterprise Limited  
6 The Strand, Townsville City

*Roundtable*

- Mr Lindsay Allen, BMP Facilitator, Growcom
- Mr John Freestun, Honeycombes Engineering
- Mr Greg Jackson, Director, RGM Maintenance
- Mr John Kaus, Managing Director, Karumba Livestock Exports; and Chairman, South East Asia Livestock Services
- Mr Roger Kaus, Principal Trade and Investment Officer, Trade and Investment Queensland
- Mr Michael Kopittke, Board Manager, Townsville Chamber of Commerce
- Mr Warren Males, Head, Economics, CANEGROWERS

- Mr Ben McMahon, Owner, North Queensland Customs Services; and Owner, Tropical Containers
- Mr Michael McMillan, Director, Policy and Investment, Townsville Enterprise Ltd
- Mr Peter Petersen, Senior Business Banking Manager, National Australia Bank
- Mr David Rynne, Director, Policy, Economics and Trade, Australian Sugar Milling Council
- Ms Glenys Schuntner, Chief Executive Officer, Regional Development Australia Townsville and North West Queensland Inc.
- Mr Nicholas Whebell, Business Development Manager, Cleveland Bay Chemical Company
- Ms Mel Woon, Executive Officer, Australian Industry and Defence Network Queensland

## **Monday, 15 October 2018**

Committee Room 2S3  
Parliament House  
Canberra

*Australian Small Business and Family Enterprise Ombudsman*

- Ms Kate Carnell, Ombudsman

*Inland Trading Company*

- Mr Greg Corra, Managing Director

*Alibaba Group-Australia and New Zealand*

- Mr James Hudson, Director of Corporate Affairs