



TRADE POLICY REVIEW

REPORT BY

AUSTRALIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Australia is attached.

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1 INTRODUCTION

1.1. Australia's trade policy aims to promote open markets, enhanced trade liberalisation, less red-tape and increased investment. The Government's objective is to position the economy to be efficient, highly competitive, and focused on capturing opportunities available in our region.

1.2. Australia's prosperity is more connected than ever to developments in the global economy. Our trade with the world is equivalent to 42% of our GDP – a number that has not dropped below 25% since 1900. The stock of foreign investment in Australia is at a record high of \$A 2.5 trillion, while Australia's investments around the world total \$A 1.6 trillion. Australia has the world's fifth highest GDP per capita and is the twelfth largest economy. Sustaining this performance requires strong international engagement.

1.3. Australia is strongly committed to the World Trade Organization (WTO) and its framework of rules. Australia supports growth in the reach and effectiveness of the multilateral trading system by upholding and further liberalising trade rules through the WTO.

1.4. In seeking enhanced international opportunities across all sectors, Australia has entered into, or is negotiating, several bilateral, regional, and plurilateral trade agreements to complement its multilateral endeavours. Australia continues to undertake unilateral and negotiated tariff reductions.

1.5. Economic development is at the centre of Australia's aid programme. The Australian Government has set a target of increasing Australia's aid for trade investments to 20% of the total aid budget by 2020.

2 ECONOMIC ENVIRONMENT

2.1 Overview

2.1. Australia has experienced 23 years of continuous economic growth, and the next four years look likely to continue this trend. As a result, Australians now enjoy some of the highest living standards in the world. However, a rebalancing of growth towards the non-resources sector is needed to address a sharp decline in resources investment and terms of trade. The economy faces some challenges in navigating this transition, with growth expected to be slightly below trend in the medium term.

2.2 Domestic Economy

2.2. Over the past decade, Australia has benefited from strong growth in emerging Asia, particularly in China and India, which has driven strong demand for Australia's commodities. This demand pushed commodity prices to record highs, driving unprecedented investment in the resources sector. However, as completed projects come online, resources exports are increasing substantially. This is contributing to rising global supply, reducing the prices of key resource commodities. The net effect of rising export volumes, but falling prices and investment, means higher activity in other sectors is needed to boost overall economic growth. As noted in the 2014-15 Budget, the Australian economy is expected to grow by 2.5% in 2014-15 and by 3% in 2015-16.

2.3. Activity outside of the resources sector is expected to strengthen over coming years, supported by low interest rates and an exchange rate that has retreated from its highs of early 2013. The clearest sign of recovery in the non-resources sectors has been in the housing market, with housing construction responding to higher prices. The pick-up in the housing sector is an important transmission channel for monetary policy, boosting household wealth and ultimately consumption. Despite asset price gains, consumers remain cautious, and sustained strength in household demand remains a missing piece in the transition away from resources-led growth. A recovery in investment outside of the resources sector is also needed. While there are tentative signs that firms are responding to improved demand and existing levels of spare capacity are being absorbed, the scale and timing of the anticipated recovery remains uncertain.

2.4. Following the global financial crisis, Australia's labour market performed strongly, compared with many other advanced economies. However, recent employment growth has been below trend and there is a high degree of excess capacity in the labour market. This has seen the unemployment rate drift higher in recent times. With the expectation of below-trend growth, it will take some time for the market to absorb the available labour. The 2014-15 Mid-Year Economic and Fiscal Outlook forecasted the unemployment rate to be 6.5% in the June quarters of both the 2015 and 2016 financial years. Excess capacity in the labour market is expected to keep wage growth subdued and to contain inflation in the coming years.

2.5. Over the medium term, Australia faces the additional challenges of adjusting to declining terms of trade (from historical highs) and an ageing population. To deliver living standard improvements similar to the last two decades, productivity will need to increase.

2.3 Monetary and Fiscal Policy

2.6. Between November 2011 and August 2013, the Reserve Bank of Australia (RBA) cut the target for the cash rate by 225 basis points to 2.5% – the lowest level on record. This loosening of monetary policy reflected the combination of the generally weaker outlook for economic activity and a lowering of the expected profile for mining investment. In addition, the economy had been growing below trend and the forward-looking labour market indicators had generally declined. The cash rate has since remained at this low level. The Reserve Bank Board judges the current setting of monetary policy will support demand. Interest rates offered to borrowers by financial institutions have declined a little since the cash rate was last changed. Current market expectations, as well as public statements from the RBA indicate that the cash rate is likely to remain stable for some time.

2.7. The Australian Government's medium to long-term fiscal strategy seeks to consolidate and strengthen public finances, on a timetable consistent with maintaining solid growth and low unemployment. A key initiative in the 2014-15 Budget was a commitment to significant infrastructure investment and reforms to the governance of nationally significant projects. This strategy aims to increase productive capacity and, over time, productivity by ensuring that investments are made prudently and assets are used efficiently. The most recent Budget update projects the underlying cash deficit to go from \$A 40.4 billion in 2014-15 (2.5% of GDP) to a deficit of \$A 11.5 billion (0.6% of GDP) by 2017-18. The Government remains committed to its objective of building a stronger economy and achieving surpluses that build to at least 1% of GDP by 2023-24. Australia remains well-placed in terms of fiscal sustainability, particularly in comparison to most other advanced economies.

2.4 Sectoral Performance¹

2.8. The agriculture industry's output (measured by industry value added) increased by 9% from 2010-11 to 2012-13. Over the same time, the value of exports from the agriculture industry grew by about 30%, reflecting both increases in prices received and export volumes, although performance varied across different commodities. Growth in this period occurred mostly through exports to China and the United States.

2.9. Labour productivity in the agriculture industry has been increasing over time, despite year-to-year variations due to the impact on output of factors such as the weather. Labour productivity over the past three years increased, continuing the observed trend.

2.10. The mining industry's output fell by over 9% in the period 2010-11 to 2012-13. The value of exports from the mining industry decreased slightly, by 2%. In 2012-13, the mining industry contributed 55% of the total value of goods exported from Australia. The fall in mining output and export performance was mainly due to falling commodity prices (after accounting for exchange

¹ Output is measured in nominal industry value added from ABS 8155.0 (Australian Industry Table 3). Employment is measured in persons, series type original, ABS 6291.0.55.003 (Labour Force, Australia, Detailed, Quarterly Table 4). Labour productivity is measured in index terms, 2011-12 = 100 as is multifactor productivity, ABS 5260.0.55.002 (Estimates of Industry Multifactor Productivity Tables 1 and 6). Exports are measured in nominal value terms, ABS 5368.0.55.006 (Characteristics of Australian Exporters, 2012-13 Tables 4 and 10.2).

rates), rather than falling export volumes. Falling commodity prices have been the result of increased global production.

2.11. Labour productivity in the mining industry dropped by 12% from 2010-11 to 2011-12, continuing the descending trend seen since the early 2000s. Labour productivity picked up slightly in 2012-13, which could reflect the closure of high-cost mines in the face of falling commodity prices. In general, the decline in labour productivity seen since the early 2000s has been due to the lag between capital investment and the corresponding increase in output and the depletion of high-quality natural resources.

2.12. Output and exports of the manufacturing industry remained relatively stable over the period, with some reduction in output occurring in 2012-13. Employment fell over the period. This is likely to reflect, in part, sectors becoming less competitive in the face of strong import competition and the sustained high value of the Australian dollar. Sectors most affected include oil refining and metals manufacturing. The food processing sector increased its output and exports, partially making up for reduced output in other sectors.

2.13. The performance of the services sector was mixed, with many sectors remaining relatively flat. Output in construction increased, reflecting the infrastructure associated with mining and gas investment. Output and employment grew strongly in public administration, safety, health care, social assistance and education and training. This growth was largely driven by increased public spending in these areas.

2.14. The export performance of the service sectors was also mixed, with the strongest growth in financial services and the largest fall in construction services. However, these two sectors only accounted for 4% of total exports. Overall, there was a small growth in the total value of services exported, which was due to the increased value of exports to China and the United States, particularly in tourism (which accounts for more than half the value of total exports).

2.5 Market and Regulatory Reforms, including Tax Reform

2.5.1 Tax White Paper

2.15. The Government has committed to a new era of reform in Australia aimed at lifting productivity and making the most of the underlying potential of the economy. As part of this broader reform agenda, the Government will produce a comprehensive Tax White Paper to provide a longer-term considered approach to tax reform that is consistent with the Government's core principles of fairness and simplicity.

2.5.2 Competition policy review

2.16. Since the last review, the Australian Government has commissioned an independent "root and branch" review of Australia's competition laws and policy. This is in recognition of the fact that the Australian economy has changed markedly since the last major review of competition policy in 1993. The Review focuses on improving outcomes for Australians by making markets work in the long term interests of consumers. It is led by Professor Ian Harper, with assistance from an expert Panel. Broadly, the Harper Review is testing whether Australia's competition policies, laws, and institutions remain 'fit for purpose' in light of the changing circumstances expected to confront the economy in the coming decade. Examples of changing economic circumstances include, increasing globalisation, ageing, and technological change. The Harper Review released a Draft Report for public consultation on 22 September 2014, noting that: "In an environment where Australia's economic structure will continue to evolve in response to global forces, and markets become increasingly global through technology and stronger trade channels, fostering competitive processes in the interests of consumers becomes an ever-changing and challenging task." Further information and a copy of the Draft Report are available on the website: <http://www.competitionpolicyreview.gov.au/>.

2.5.3 Small business policy agenda

2.17. The Australian Government has a long-term policy agenda to drive economic growth, reduce red tape burdens for business, and improve productivity and competitiveness. The Australian Government's small business policy agenda focuses on three key priorities:

- reducing red tape burdens for small business and improving how regulators engage with small business;
- improving the operating environment facing small business; and
- building small business capability by increasing the quality and effectiveness of government engagement with the sector.

2.5.4 Deregulation

2.18. In September 2013, the Australian Government embarked on a wide-ranging deregulation agenda aimed at improving Australia's productivity. The goal is to improve consultation and restore predictability so that policy serves to boost confidence, promote investment, and encourage employment.

2.19. The Government has taken a three-pronged approach to addressing regulatory burdens. Its focus is on reducing the flow of new regulations, reviewing the stock of existing regulations and encouraging regulators to minimise the burdens they impose when administering regulation. As part of this agenda the Government is committed to reducing compliance costs by \$A 1 billion per year for business, individuals and community organizations. There is also a requirement that any new regulations are offset by reductions in other regulatory burdens.

2.20. The Government has issued Statements of Expectations to regulators, outlining the priorities for them to take into account in fulfilling their statutory duties. These statements have a major focus on deregulation. In addition, the Government has set aside at least two parliamentary sitting days each year for repealing counterproductive, unnecessary or redundant legislation. Repeal Days were held in March and October 2014.

2.5.5 Financial Systems Inquiry

2.21. The Australian Government released the final report of the independent Financial System Inquiry on 7 December 2014. The Inquiry was charged with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth.

2.22. The report made 44 recommendations to serve as a blueprint for the financial system over the next decade. The recommendations are based on the themes of funding Australia's economy and boosting competition. They focus on five specific areas: resilience; superannuation and retirement incomes; innovation; consumer outcomes; and the regulatory system.

2.23. The Government is consulting on the Inquiry's recommendations before making any decisions, and is calling for written submissions from all stakeholders, including industry and members of the public.

2.5.6 Anti-dumping reforms

2.24. Since January 2011, significant legislative and administrative changes have been made to Australia's anti-dumping system.

2.25. In 2011, in response to the 2009 Productivity Commission report "Australia's Anti-dumping and Countervailing System", the Government announced "Streamlining Australia's Anti-dumping System – An Effective Anti-dumping and Countervailing System for Australia" (Streamlining reforms). The Streamlining reforms included a number of elements, such as: establishment of the International Trade Remedies Advisor (ITRA); establishment of an anti-circumvention framework; increased staffing of the previous International Trade Remedies Branch; establishment of the

Anti-Dumping Review Panel; increased monitoring of compliance with anti-dumping measures; and clarifying the parties permitted to participate in investigations. These reforms strengthened the anti-dumping system by improving access, timeliness, decision making and compliance, and increasing consistency with other anti-dumping administrations.

2.26. In 2012, the "Review into Anti-Dumping Arrangements" (Brumby review) was released. The review made several findings and recommendations, including the establishment of a new anti-dumping agency reporting directly to the Minister for Industry. The Brumby review also recommended that the new agency be principally located in a major capital city where there is a high concentration of Australian industry. In late 2012, the Government announced the "Strengthening Australia's Anti-dumping System Reforms" (Strengthening reforms), which implemented the primary recommendations of the Brumby review and also made other improvements to the system. These included: establishing the Anti-Dumping Commission in Melbourne, Australia; increasing funding to recruit additional staff; expanding the anti-circumvention framework; clarifying the application of retrospective duty provisions; increasing penalties for false statements; and continuing funding for the ITRA.

2.27. The Government transferred responsibility for anti-dumping matters to the Minister for Industry (from the Minister for Home Affairs) following the 2013 national election to capitalise on the Department of Industry's detailed understanding of the issues facing industry stakeholders.

2.28. On 15 December 2014, further reforms to Australia's anti-dumping arrangements were announced to strengthen the anti-dumping system and respond to industry concerns. The reforms included: enhanced information and support mechanisms for Australian businesses; improvements to the Anti-Dumping Review Panel's merits review process; changes to address circumvention activity to avoid dumping duties through minor product modifications; and other technical changes to the legislation that clarify the operation of the system. The proposed reforms are consistent with Australia's WTO obligations.

2.6 International Economic Engagement Overview

2.6.1 Overview

2.29. As a medium-sized, open economy (reliant on raw commodity exports and foreign investment), Australia's economic prospects are significantly influenced by external developments.

2.30. Maintaining Australia's close trade and investment links to the rapidly growing Asian region is vital for its future prosperity. In recent years, strong growth in emerging Asia, particularly in China and India, has driven demand for Australia's commodities. The Treasury estimates that by 2050 four of the world's five largest economies will be in Asia — China, India, Indonesia and Japan — with Korea, Malaysia and Thailand also in the top twenty.

2.31. More broadly, the maintenance of open and competitive global trade and investment flows are essential to supporting global economic recovery.

2.32. Key risks to the Australian economy also need to be managed, including weak growth in the major advanced economies, negative spill-overs to major emerging markets, sovereign debt concerns in major advanced economies, unstable financial market conditions, and volatile commodity prices.

2.6.2 World Trade Organization (WTO)

2.33. Australia is committed to the WTO and its framework of rules. Australia strongly supports efforts to conclude the Doha Round and will continue to work actively and constructively with other Members toward this end. See sections 3.13 and 3.14 for more detailed information.

2.6.3 Trade-related development assistance (Aid for trade)

2.34. Economic development is at the centre of Australia's aid programme. A key element of this programme is to promote and support sustainable economic growth and prosperity in the Indo-Pacific region through increased trade and investment. Aid for trade is about helping

developing countries address their internal constraints to trade, including cumbersome regulations, lack of skills, and poor infrastructure.

2.35. In June 2014, the Australian Government announced a new development policy and framework and has set a target of increasing Australia's aid for trade investment to 20% of the total aid budget (or Official Development Assistance) by 2020.

2.36. Australia has supported the global Aid for Trade Initiative of the WTO and the OECD since it began in 2005. Australia's aid for trade approach aligns with the definition of aid for trade set by the WTO and the Organization for Economic Co-operation and Development (OECD).

2.37. In 2013-14, Australia's aid for trade represented about \$A 630 million or 12.5% of Australia's total Official Development Assistance. The majority of this assistance was for building productive capacity, including in agriculture (54% of total aid for trade), economic infrastructure (42%), and trade policy and regulation (4%).

2.38. Australia's aid for trade is undertaken and delivered through multilateral, regional and bilateral channels. For example, at the multilateral level, Australia has supported the WTO to help developing countries engage more effectively in trade negotiations. Australia also supported the World Intellectual Property Organization's efforts to assist developing countries build their intellectual property systems, and facilitate technology and knowledge transfer. On a regional basis, Australia has provided training for customs officials and helped established a common set of cross-border paperwork in the Mekong. At a bilateral level, Australia has provided research and training to farmers in the Pacific to improve their production methods and meet international export requirements.

2.39. To assist Least Developed Countries (LDCs) improve their trade, Australia has provided LDCs full duty-free and quota-free access to our markets since 2003. This has contributed to notable increases in LDC exports to Australia – averaging about 13% per year between 2003 and 2013.

2.40. In 2013, Australia provided \$A 400,000 to the WTO Trade Facilitation National Needs Assessment Trust Fund to help identify the technical assistance and capacity building required by developing countries to implement the WTO's draft consolidated negotiating text. Australia committed \$A 6 million over the period 2013-17 to the WTO Global Trust Fund to help developing countries engage more effectively in multilateral trade negotiations and implement their WTO membership commitments. \$A 3 million was also committed to the Enhanced Integrated Framework over the same period to help LDCs address their constraints to trade.

2.41. In July 2014, Australia launched a new multilateral aid for trade initiative, the Australian Global Trade Integration Facility (\$A 60 million over four years), which will mainly support projects on trade policy and regulatory reform. This Facility includes Australia's \$A 6 million contribution over three years to the World Bank's Trade Facilitation Support Program (TFSP), designed to assist developing countries undertake at-the-border reforms such as improvements to customs procedures and port practices. Australia has also made a commitment of \$A 1 million to assist developing nations implement the WTO Agreement on Trade Facilitation.

2.42. Beyond the WTO and OECD, Australia continues to advocate the importance of aid for trade in other forums, such as the G20 and the UN-led Post 2015 Development Agenda.

2.6.4 G20

2.43. As G20 host in 2014, Australia focused on actions to support private sector-led growth, job creation and strengthening global economic resilience. Representing around three-quarters of global trade, actions by G20 members can make a direct contribution to growth in trade.

2.44. The central outcome from Australia's agenda was the G20's commitment to lift its collective GDP by more than 2% above the five year trajectory indicated by the October 2013 IMF *World Economic Outlook*. As part of this commitment, each G20 member delivered a comprehensive national growth strategy outlining its domestic actions to boost domestic growth and deliver employment opportunities. These plans focused on structural reforms, including removing

obstacles to trade. The combined growth strategies of G20 member nations presented at the Brisbane Leaders' Summit – the 'Brisbane Action Plan' – contained more than 800 new policy measures, which the IMF and OECD have estimated will boost the collective GDP of G20 nations by 2.1% by 2018.

2.45. Trade measures included in growth strategies varied, but G20 Members included deregulatory measures, enhanced logistics, faster customs procedures, upgrades to trade-related infrastructure and reducing taxes at the border as actions to be taken in their strategies. Measures to lower the cost of trading across borders and facilitate participation by businesses in regional and global value chains were emphasised in all of the strategies.

2.46. Trade measures in Australia's growth strategy included: a move towards accession to the WTO Agreement on Government Procurement; a Trusted Trader Programme to support the enhancement of supply chain efficiency; implementation of completed free trade agreements with the Republic of Korea and Japan; regulatory burden reductions (e.g. reforms to Australia's coastal shipping industry to reduce costs); freight infrastructure investments; and funding for skills training.

2.47. Australia held the second G20 Trade Ministers meeting in Sydney on 19 July 2014, bringing together ministers from each of the G20 member countries and invited guests, along with the Director-General of the WTO and representatives of the OECD and World Bank Group. Trade Ministers had the opportunity to hear directly from the B20 (G20 business representatives) about their recommendations to boost growth and help achieve the growth target through trade. Ministers also discussed how to forge a stronger global trading system. Key outcomes in the Chair's Summary included reaffirming the G20's commitment to standstill and roll back protectionist measures introduced since the global financial crisis and to aid for trade as a means of reducing poverty. Finally, ministers welcomed Turkey's announcement it would host another G20 Trade Ministers meeting in 2015.

2.48. At the G20 Summit in Brisbane in November 2014, Leaders discussed the need for a strong global trading system to create the conditions for business to drive growth and generate jobs. Leaders discussed how to ensure bilateral, regional and plurilateral agreements deliver economic growth and ways in which they can complement multilateral liberalisation. They focused on the need for a robust and effective WTO that responds to current and future challenges. Australia, as a G20 troika member, is working closely with the 2015 G20 host, Turkey, to develop a substantial trade agenda. The WTO and other international organizations will play a valuable role in analysis to inform future G20 discussions, including on the role of regional trade agreements (RTAs).

2.6.5 Asia-Pacific Economic Cooperation (APEC)

2.49. Australia has a strong commitment to APEC as a regional forum for promoting trade and investment liberalisation and economic cooperation in the Asia-Pacific. APEC's work on trade and investment liberalisation, business facilitation and economic reform is instrumental in enabling sustained economic growth in the region's economies.

2.50. Australia makes a strong contribution to enhancing regional economic integration through APEC. For example, Australia led work to increase transparency and encourage unilateral reform of measures affecting services trade in specific sectors (e.g. financial, transport and logistics, higher education). To support the realisation of a Free Trade Agreement for the Asia-Pacific, Australia is providing leadership on improving information-sharing on regional free trade agreements as a means of encouraging comprehensive, high-quality agreements. Australia also collaborated closely with economies in developing the 2012 APEC List of Environmental Goods, for which tariffs will be reduced to 5% or less by the end of 2015.

2.51. Economic and technical cooperation and practical capacity-building assistance are key pillars of APEC's work. Australia provides strong policy and financial support for this work, particularly where it enhances developing economies' capacity to reap the benefits of improved trade and investment. For example, Australia's financial and training support assisted developing APEC economies implement their structural reform priorities. Australia also supports targeted capacity building to improve the performance of regional supply chains and help APEC economies implement their obligations in the WTO Agreement on Trade Facilitation.

2.6.6 East Asia Summit (EAS)

2.52. Australia is a strong supporter of, and active participant in, both of the East Asia Summit's (EAS) economic streams – the Economic (Trade) Ministers' Meeting and the informal Finance Ministers' Meeting. Australia is keen to ensure the EAS develops strong economic institutions, allowing the region to realise its economic potential manage the associated risks and complications. Australia was a leading advocate for the formalisation of the EAS' economic stream in 2013 and continues to advocate formalisation of its finance stream.

2.53. The EAS economic stream has been contributing to the progress of regional economic integration, including through connectivity activities related to physical, institutional and people-to-people linkages. It has also provided a useful forum for members to discuss regional and global economic developments, and trade liberalisation, including the Regional Comprehensive Economic Partnership (RCEP), Trans-Pacific Partnership (TPP) and WTO matters. It has also provided a mechanism to consider the contribution of the Economic Research Institute for ASEAN and East Asia (ERIA) to the region's integration efforts. We expect this stream to play a greater role in supporting regional economic integration in the future.

2.54. Engagement under the EAS finance stream has been supporting the emergence of the region's economic identity, by focusing Ministers' attention on the regional dimension of global economic issues, and other unique regional challenges. This has included consideration of the equity and environmental dimensions of sustainable economic growth, how to attract the region's surplus savings into financing the region's enormous infrastructure needs, and the benefits of sharing the considerable economic reform and management experience that already exists within the region. In the future, this stream could help ensure greater coordination of the region's macroeconomic policy settings and management of the increased complexities that come with economic development (e.g. protecting efficient tax bases and ensuring complementary financial market regulation).

2.6.7 Organization for Economic Co-operation and Development (OECD)

2.55. Australia is an active player in the OECD, including through participation in the OECD Trade Committee and its subsidiary bodies. We welcome the OECD Trade Committee's continued advocacy of the benefits of trade liberalisation supported by evidence-based analysis of the real cost of protectionism. In particular, we welcome the OECD's contributions to the 2014 Australian G20 Presidency's priorities of promoting stronger economic growth and employment, including identifying actions to boost trade. The OECD's work in quantifying the potential trade cost impacts of trade facilitation measures, and in identifying potential services reforms through the Services Trade Restrictiveness Index were key inputs to the G20. Australia also takes a strong interest in the OECD's work on the policy implications of global value chains, as well as its ongoing analytical work in areas such as non-tariff measures, regional trade agreements, export credits, environment and trade, trade and development and aid for trade.

3 TRADE AND INVESTMENT POLICY

3.1 Overview

3.1. Australia is committed to a programme of tariff reductions and enhanced international opportunities across all sectors. In support of this objective, Australia has entered into, or is negotiating, a number of bilateral, regional, and plurilateral trade agreements to complement its multilateral endeavours.

3.2. Australia's prosperity is underpinned by its global economic engagement as articulated through the Government's economic diplomacy agenda. Global trade reform in agriculture, manufacturing, environmental goods, services, intellectual property, energy and resources, investment and tourism are all priorities for the Australian Government.

3.3. Australia's economic diplomacy strategy targets global prosperity through its aid for trade programme, which supports sustainable economic growth and prosperity, primarily in the Indo-Pacific region.

3.2 Tariff Regime

3.4. Australia is committed to reducing tariffs. By 2015, more than 99% of Australia's tariff lines will be applied at a Most Favoured Nation (MFN) rate of 5% or less, with over 47% duty free. The average applied tariff rate will have fallen to 2.6%. Australia's passenger motor vehicle (PMV) duties have now been reduced to 5%, with tariffs on remaining textile, clothing and footwear (TCF) lines reduced from 10% to no higher than 5% in 2015.

3.3 Agriculture

3.5. Australia's major agricultural exports are wheat, beef, wool, dairy products, cotton and wine. Around 60% of Australia's agricultural production is exported. Wheat, beef and veal, and wool are the three largest agricultural exports by value. These exports have almost tripled in value (real terms) since the mid-1970s. In many rural and regional parts of Australia the agriculture sector makes a vital economic contribution and is a significant employer. Over the last 20 years there has been a shift in emphasis from European to Asian markets and this trend is expected to continue.

3.6. Global agricultural trade reform is a key objective of Australia's international trade agenda. With over two-thirds of Australia's agricultural production exported to global markets, Australia is committed to a fair and market-oriented agricultural trading system. While agriculture is the most distorted area of international trade, Australia's agricultural sector is one of the most open, market-oriented and competitive in the world. Domestic and international prices for agricultural commodities are closely aligned and the level of assistance provided to agriculture means that Australia remains the second lowest subsidiser in the OECD.

3.4 Australia's Biosecurity Arrangements

3.7. Australia manages its biosecurity risks offshore, at the border, and within Australia — the biosecurity continuum. This framework manages biosecurity risks at the point where intervention is most effective. Several historical reviews have identified improvements to Australia's biosecurity system.² Australia's biosecurity system is continuously reformed to ensure it keeps pace with the dynamic biosecurity environment. Central to these reform activities has been the focus on managing risks at all points on the biosecurity continuum. There is an emphasis on prevention, preparedness and early intervention. This includes activities offshore to reduce risks before they reach the border, actions at the border to deal with risks, and managing activities within Australia to minimise the impact of incursions and to facilitate trade. There is also a focus on aligning resources and regulatory effort based on the level of risk. This approach includes ensuring sustainable funding, improving legislative frameworks, modernising information and communications technology systems and enhancing the management of established pests and diseases.

3.8. The Australian Government introduced the Biosecurity Bill in 2014 to replace the Quarantine Act 1908. The Biosecurity Bill simplifies Australia's biosecurity laws while maintaining the standard of protection for human, animal, plant life and the environment. The Australian Department of Agriculture provides further advice on the Biosecurity Bill 2014 at: <http://www.agriculture.gov.au/biosecuritylegislation>.

3.9. The Australian Government examined import risk analysis (IRA) processes in 2014 to ensure arrangements are sufficiently robust to minimise the risk of exotic pests and disease incursions in Australia. The Department of Agriculture sought input from stakeholders and trading partners on specific elements of the IRA process. Recommendations for administrative and regulatory improvements are being considered in the context of developing regulations and policies for import risk analyses under the Biosecurity Bill 2014.

3.5 Manufacturing

3.10. Australia's approach to manufacturing builds on our strengths by improving productivity, rewarding entrepreneurship and providing structural support to companies.

² These reviews include Nairn Review (1996), the Beale Review (2008), and to some extent the reviews by Callinan (2008), Farmer (2011) and Matthews (2011).

3.11. The Entrepreneurs' Infrastructure Programme (EIP) recognises Australia's diverse business landscape and the changing nature of markets and industries in the global economy. With a national network of more than 100 experienced private sector advisers, the EIP offers support to businesses through business management, research connections and commercialising ideas.

3.12. The Australian Government is delivering practical and targeted programmes that support Australia's manufacturing sector as it transitions towards higher-value, knowledge-based activities.

3.13. The Manufacturing Transition Programme provides grants to firms to assist them to move away from low-tech commodity style production that may not be globally competitive, to advanced manufacturing where specialised knowledge and skills gives Australia an advantage.

3.14. The Australian Government is also focused on ensuring Australian automotive workers, component makers and small businesses in the manufacturing supply chain have the opportunity and support to take advantage of new jobs and new markets.

3.15. The Automotive Diversification Programme is one part of the Australian Government's Growth Fund, which aims to drive development in new industries before the end of local car manufacturing in 2017. The programme aims to connect the automotive supply chain to business opportunities in other markets and industry sectors such as defence, construction, mining and medical technology.

3.16. The Australian Government is also preparing a National Industry Investment and Competitiveness Agenda (NIICA), to focus on long-term issues relating to competitiveness, productivity and job opportunities in the industries of the future. The Industry Skills Fund is a key element of the NIICA. It will assist Australian industry to access training and support services and to develop innovative training solutions so that Australia will have the highly skilled workforce it needs to adapt to new business growth opportunities, rapid technological change and market driven structural adjustment.

3.6 Services

3.17. The Australian Government recognises the important role services play in all modern economies and the positive potential this sector has to improve trade and economic growth.

3.18. Australia is a world-class provider of a range of services, such as telecommunications, travel, banking and insurance. The services sector is a significant part of the economy and represents about 70% of Australia's GDP. The services sector employs more than four out of five Australians. Three of Australia's top five 'globally significant' industries are education, leisure tourism and financial services.

3.19. In 2013, total trade in services accounted for 19.3% of Australia's total trade in goods and services, and services exports accounted for 17.3% of Australia's total exports. The value of Australia's services exports is even greater when taking into account the export role of intermediate services inputs ("embodied services"). OECD value-added analysis has further confirmed that approximately 40% of Australia's exports measured in value-added originates from services.

3.20. Australia's priority sectors for market opening in global services trade reform efforts include financial services, telecommunications, professional services, education, mining-related and environmental services.

3.21. Encouraging greater trade in services through open markets and non-discriminatory treatment can lead to higher employment levels, higher incomes and higher standards of living. Australia is working to enhance international opportunities for service industries through multilateral, bilateral and regional trade negotiations to remove non-tariff barriers to improve market access and address behind-the-border barriers.

3.22. Australia is one of the most active advocates of services trade reform in the WTO, in plurilateral and regional initiatives and in bilateral FTAs. It has some of the most open services sectors and one of the most highly transparent investment regimes in the world. Australia is jointly

leading a group of WTO Members negotiating Trade in Services Agreement (TiSA), an agreement which will support multilateral negotiations on services.

3.23. Australia has undertaken significant reform across the services economy over the last twenty years to complement its work in improving market conditions internationally. The Government has pledged to cut red tape costs by \$A 1 billion a year to improve the nation's competitiveness, help to create more jobs and lower household costs. This reform agenda has been supported by close attention to the role of regulation and competition, including through the work of the Office of Best Practice Regulation and the Australian Competition and Consumer Commission.

3.7 Intellectual Property

3.24. Australia continues to support the effective implementation of rights and obligations within the framework of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).

3.25. A number of intellectual-property related legislative developments have occurred since Australia's last WTO Trade Policy Review:

- The Intellectual Property Laws Amendment (Raising the Bar) Act 2012 came into full effect on 15 April 2013. The Act raises the quality of granted patents, allows free access to patented inventions for regulatory approvals and research, reduces delays in resolution of patent and trade mark applications, assists the operations of the intellectual property profession, improves mechanisms for trade mark and copyright enforcement, and simplifies some aspects of the intellectual property system.
- The Therapeutic Goods Legislation Amendment (Copyright) Act 2011 amended the Copyright Act 1968 to provide that copyright in product information for particular medicines would not be infringed by actions required under the Therapeutic Goods Act 1989.
- Australia approved the Protocol Amending the TRIPS Agreement in 2007. Australia is currently progressing legislation to implement this Protocol. This would enable Australian medicine producers to manufacture and export patented pharmaceuticals to countries experiencing health crises, under a compulsory licence from the Federal Court.

3.26. In March 2013, Australia acceded to the Council of Europe Convention on Cybercrime. In June 2014, the Australian Government announced Australia's intention to ratify the Marrakesh Treaty to Facilitate Access to Published Works for Persons who are Blind, Visually Impaired, or otherwise Print Disabled. Since the last review, Australia has signed various free trade agreements which contain chapters relating to intellectual property protection and enforcement.

3.27. Australia continues to be an active participant in discussing intellectual property issues within a range of international and regional forums. These forums include the World Intellectual Property Organization (WIPO) and the Intellectual Property Committee established under the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) to oversee the delivery of projects to improve intellectual property standards within the region. Australia has also been an active participant in negotiations centred on the Indo-Pacific region, including the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership.

3.28. Australia continues to support the AANZFTA Economic Cooperation Work Programme (ECWP) which aims to facilitate the implementation of the AANZFTA through annual trade and investment related activities, including those concerning intellectual property. For example, funds from the ECWP have supported IP Australia's development of the Regional Patent Examination Training programme, a comprehensive competency based online training programme targeted towards intellectual property offices in AANZFTA member states. WIPO funding has allowed the involvement of the African Regional Intellectual Property Office.

3.29. Through Australia's aid programme, \$A 2 million was provided to WIPO to establish the WIPO-Australia Funds in Trust. The Funds in Trust programme seeks to promote trade and

economic growth through improved application and use of intellectual property rules by developing countries in the Indo-Pacific region. Activities under the Funds in Trust include intellectual property capacity building, training to increase access to technology transfer, improving the ability to use intellectual property for research into neglected tropical diseases, malaria and tuberculosis, and utilising the intellectual property system for the benefit of the visually impaired.

3.8 Energy and Resources

3.30. Australia's resources sector is in a period of growth as it moves from the investment phase to the production phase of the mining boom.

3.31. The Australian Government works with industry and foreign governments to maximise export opportunities for Australia's resource and energy commodities, products, technologies and services, and to enhance domestic and regional energy security. The Australian Government also works with industry and foreign governments to maximise positive investment outcomes in Australia's resources and energy sectors.

3.32. Australia's energy and minerals policy priorities are advanced through many key forums including: APEC Energy Working Group, East Asia Summit Energy Cooperation Task Force, the G20, International Energy Agency (IEA), and the International Energy Forum (IEF).

3.33. Regional and bilateral free trade agreements are another way in which Australia seeks to maximise opportunities for its extractives industries. For example, the recent agreement with Japan (JAEPA) will lead to all of Australia's resource and energy products entering Japan duty free upon full implementation. Australia's agreement with the Republic of Korea also strengthens opportunities for the extractives sector.

3.34. Australia also engages in bilateral minerals and energy cooperation with China, India, Japan, the Republic of Korea, Chinese Taipei, and the United States of America through Energy Dialogues. Bilateral dialogues aim to facilitate a mutual understanding of energy and mineral resource policies and issues, promote trade and investment, and stimulate bilateral commercial relationships for the benefit of all stakeholders.

3.35. Australia's G20 energy agenda for 2014 included building the resilience of energy markets, strengthening global energy architecture, strengthening gas markets, and bolstering energy efficiency. The Group developed the G20 principles on Energy Collaboration and the G20 Energy Efficiency Action Plan. The G20 principles established a set of priorities for G20 collaboration on energy and lay the foundation for future work. The Energy Efficiency Action Plan documents six areas of practical energy efficiency work for ongoing collaboration among G20 members. In 2014, the G20 also held the inaugural G20-International Energy Forum Gas Market Dialogue.

3.9 Investment

3.36. Australia has continued to pursue liberalisation of its foreign investment regime to reduce compliance costs and improve Australia's competitiveness as an investment destination. In March 2013, updates to Australia's Foreign Investment Policy improved its clarity and consistency, making it easier for foreign investors to understand their obligations. Updates included a relaxation of notification requirements for foreign government banks that take security when lending, unless they later enforce the security and hold the assets for more than 12 months, and clearer definitions of "direct investment" and "new business".

3.37. The conclusion of free trade agreements are also contributing to the liberalisation of Australia's foreign investment regime. Investors from the United States, New Zealand (as of March 2013), Republic of Korea and Japan are permitted a higher threshold of \$A 1,094 million, before investments are subjected to scrutiny by the Foreign Investment Review Board. The higher threshold will also extend to Chinese investors upon entry-into-force of the China-Australia Free Trade Agreement.

3.10 Tourism

3.38. In late 2013, tourism joined the Foreign Affairs and Trade Portfolio. Tourism is Australia's number one services export industry, valued at \$A 27.0 billion. Australia is strengthening bilateral tourism relationships with major tourist source countries as part of the Government's economic diplomacy agenda and priorities under Tourism 2020. We are also increasing our engagement in key multilateral tourism forums such as the APEC Tourism Working Group and the OECD Tourism Committee.

3.39. In 2012-13, tourism, as a percentage of GDP, rose 3.7% to \$A 42 billion (around 2.8% of total GDP), tourism industry exports rose 5.7% to \$A 27 billion (8.9% of total exports), tourism industry imports contracted 0.1%, and tourism employment rose 2.2% to 543,600 – almost double the 1.2% growth rate of national employment. Tourism's share of total employment is now 4.7%. In 2013, the number of international visitors to Australia aged 15 years and over increased 5.6% to 5.9 million and total trip expenditure grew 6% to \$A 28.9 billion. Australia's top trading partner, China, accounted for the greatest total trip expenditure and saw the greatest increase in visitor numbers of any country between 2012 and 2013.

3.11 Trade and Environment

3.40. Australia's objectives in negotiations on trade and environment issues are to liberalise international trade in environmental goods and services, recognising the important role that trade can play in addressing climate change and pursuing other environmental goals. Australia continues to work with other WTO Members on the relationship between WTO rules and specific trade obligations in multilateral environmental agreements, ensuring that trade measures do not clash with other relevant treaties and that environmental measures do not act as an avenue for trade protectionism. Australia is playing a lead role in negotiations with other WTO Members for a plurilateral agreement to liberalise trade in environmental goods.

3.41. Australia has also sought to pursue environmental objectives and enhance international cooperation in environmental matters of shared interest through FTA negotiations. Provisions are included in all of Australia's FTAs which allow governments to provide legitimate protection for their environments, while simultaneously guarding against trade distorting policies taken in the guise of environmental protection. Three of Australia's finalised FTAs also contain specific chapters on the environment: Australia-United States Free Trade Agreement (AUSFTA), the Australia-Chile Free Trade Agreement (ACI-FTA) and the Australia-Korea Free Trade Agreement (KAFTA).

3.12 Trade and Investment Promotion

3.42. Austrade is the Australian Government's international trade, education and investment promotion agency. It also has responsibility for tourism policy, programmes and research. Through a global network of offices, Austrade assists Australian enterprises to develop international business, helps win foreign direct investment into Australia, and promotes the international education and training sectors. Austrade's services and activities contribute to Australia's economic prosperity.

3.43. Australian businesses and institutions face a range of barriers in different markets that impede successful market entry and the identification of relevant commercial opportunities. Austrade provides support to internationally-ready Australian businesses and institutions by focusing on markets where those barriers are strongest: where different language and business cultures can be challenging, where there is less openness of regulatory frameworks and transparency of business processes, where there are difficulties accessing distribution channels and commercial connections, and where the value of the 'badge of government' is highest. Austrade directs more of its resources to Asian and other growth and emerging markets, which have significant commercial potential and provide opportunities aligned with Australia's comparative advantages.

3.44. Austrade works closely with Australian state and territory governments to attract and facilitate productive foreign direct investment into Australia. In February 2014, Australian ministers responsible for trade and investment agreed to focus their collaborative efforts on five national investment priority areas which play to the country's strengths and offer opportunities for

investors. Investment priorities include: agribusiness and food; resources and energy; major infrastructure; tourism infrastructure; and advanced services, manufacturing and technologies. The appointment of Senior Investment Specialists has increased Australia's capacity to attract foreign investment by promoting Australia as a place to invest.

3.45. Austrade promotes Australia's international education and training sector in markets overseas, contributing to the growth of demand for Australian education, and assisting education providers with up-to-date market intelligence. Austrade also supports the tourism industry to deliver high quality products and services by helping overcome a number of supply-side barriers. In particular, it is focusing on policy reforms to enhance investment, ameliorate labour and skills shortages and to increase transport capacity and visa access.

3.13 Multilateral Trade Initiatives – WTO Overview

3.46. 3.46. Australia supports growth in the reach and effectiveness of the multilateral trading system by upholding and further liberalising trade rules through the WTO. Australia will continue to advocate a strong, rules-based architecture for global trade.

3.47. 3.47. In recent negotiations, Australia prioritised resolving obstacles preventing the adoption of the Protocol of Amendment to open the Agreement on Trade Facilitation (ATF) for acceptance.

3.14 Concluding the Doha Round – Bali and Post-Bali

3.48. Australia remains committed to concluding the Doha Round. Our approach to developing the post-Bali work programme is that we should focus on elements that are practical and doable, with a view to concluding the Doha Round as soon as possible.

3.49. The Bali Package agreed in December 2013 was an important stepping stone towards concluding the Doha Round. Australia keenly endorsed all elements of the Bali Package, including the timetable for implementation. Australia is strongly committed to the ATF and development components of the package.

3.50. Australia's commitment to developing and least-developed countries is tangible, with assistance provided to developing countries to undertake trade facilitation reforms. Australia is contributing \$A 6 million over three years to the World Bank's Trade Facilitation Support Program to assist developing countries undertake at-the-border reforms such as improvements to customs procedures. Australia co-funded a workshop for Pacific Islands WTO Members on ATF implementation from 12-15 May 2014 in Nadi, Fiji. Australia has also made a commitment of \$A 1 million to the WTO to assist developing nations implement the Agreement, but this is contingent upon adoption of the Agreement.

3.51. Australia considers the ATF a very effective means of cutting red-tape, speeding up border clearances and reducing the costs of doing business internationally. The Australian Government had commenced its domestic approval processes to accept the Agreement when WTO Members missed the July 2014 deadline for opening the ATF protocol for acceptance. The Agreement was tabled in Parliament on 18 June 2014.

3.52. As with all proposed treaties, the Australian Parliament's Joint Standing Committee on Treaties (JSCOT) must review the ATF. Given the non-adoption of the Agreement's Protocol of Amendment on 31 July 2014, JSCOT agreed on 26 August 2014 to suspend consideration of the ATF. Now that the Agreement is open for adoption, Australia is seeking to recommence the JSCOT process and is looking to formally accept and notify the WTO of acceptance in the first half of 2015.

3.53. The 2013 WTO Bali Package contained a number of measures related to agriculture, including a declaration in relation to export competition and decisions on tariff rate quota administration, general services, cotton and public stockholding. While Australia welcomed the 2013 Bali Package as a credible step forward in the Doha Round negotiations, there remains much work to be done to achieve substantial reductions in agricultural support and protection.

3.54. Australia is Chair of the Cairns Group in the WTO, which celebrated its 28th year in 2014. The Cairns Group represents a broad global cross-section of both developing and developed country agricultural exporters and provides an interface between primary producers and policy makers in the member countries. The Cairns Group is committed to further agriculture trade reform, in order to create a fairer and more open trading environment for all agriculture producers, developed and developing. Representatives of Cairns Group member countries meet regularly within the WTO and will continue efforts, both at a technical and political level, to resolve the outstanding issues in the current Doha Round negotiations.

3.55. Australia supports the four Bali Ministerial Decisions relating to development and least developed country (LDC) issues. Australia acknowledges that special and differential treatment is an integral part of WTO Doha Round negotiations. It exists to balance the structural asymmetry between developing and developed countries, but flexibilities should be designed in a way that reduces the distortions and restrictions in the international agricultural trading system.

3.56. Australia is committed to the effective operationalization of the LDC Services Waiver. Australia has been working with LDCs to identify meaningful services trade preferences in areas of LDC export interest and complementary capacity building activities to increase LDC participation in trade in services. While Australia welcomed the 2013 Bali Package as a credible step forward for the Doha Round, there remains much work to be done to achieve substantial reductions in agricultural support and protection.

3.15 Plurilateral Negotiations

3.57. Australia continues to proactively negotiate plurilateral agreements under the auspices of, and alongside, the WTO. Australia is party to negotiations on the Trade in Services Agreement (TiSA), Information Technology Agreement (ITA), and the Environmental Goods Agreement (EGA).

3.15.1 Trade in Services Agreement (TiSA)

3.58. Formal negotiations for the Trade in Services Agreement (TiSA) commenced in early 2013. The negotiations, which currently involve 23 Parties, are based on delivering a high-quality and comprehensive services-only trade agreement. The objective is to negotiate an agreement which is compatible with the WTO General Agreement on Trade in Services, will attract broad participation, and will support and feed back into multilateral trade negotiations. The TiSA will set a new standard in services trade commitments, capturing the progress that has been made through unilateral liberalisation and in free trade agreements outside the multilateral system. Many of the current parties already have relatively open services markets. Locking in existing market access would provide certainty for Australian services suppliers. As participation continues to expand, the TiSA could offer significant additional benefits.

3.59. The TiSA negotiations would cover all services sectors, including financial services; ICT services (including telecommunications and e-commerce); professional services; maritime transport services; air transport services; competitive delivery services; energy services; temporary entry of business persons; government procurement; and new rules on domestic regulation to ensure regulatory settings do not operate as a barrier to trade in services. In addition to improved market access commitments, the negotiations also provide an opportunity to develop new disciplines (or trade rules) in areas where there have been significant developments since the WTO Uruguay Round negotiations.

3.15.2 Information Technology Agreement (ITA)

3.60. Australia is a participant in the negotiations to expand the coverage of the ITA. Negotiations resumed in November 2014 following a delay since late 2013. We look forward to concluding the agreement as expeditiously as possible.

3.15.3 Environmental Goods Agreement (EGA)

3.61. In January 2014, Australia and 13 other WTO Members, including China, the European Union, Japan and the United States launched negotiations for a plurilateral agreement on the liberalisation of trade in environmental goods. The EGA will be a non-preferential plurilateral

agreement, reinforcing the multilateral trading system and benefiting all WTO Members by applying the principle of Most Favoured Nation. The EGA will build on commitments made by APEC Leaders in 2012 for reductions in tariffs on a list of 54 environmental goods, and will likely include other goods that directly and positively contribute to green growth and sustainable development. Australia is the current chair of the negotiations, which commenced in July 2014. When concluded, the agreement will eliminate tariffs on an agreed range of goods to help protect the environment and address climate change.

3.16 WTO Disputes

3.62. Australia continues to be a strong proponent of the WTO dispute settlement system as a means of ensuring the rules-based multilateral trading regime remains open, equitable and enforceable. Since 1995, Australia has been a complainant in 7 cases, respondent in 15 disputes (including as respondent in 5 current disputes related to Australia's tobacco plain packaging measure), and third party in 85 disputes, making it an active Member on WTO dispute settlement. It views the system as an important mechanism for promoting and defending Australia's trade interests, particularly as the system provides all WTO Members with confidence that the commitments and obligations contained in the WTO Agreement will be respected. Australia will continue to engage actively in the negotiations for the review of the WTO's dispute settlement system in order to support efforts to strengthen this important mechanism.

3.17 Bilateral and Regional Trade Initiatives Overview

3.63. As part of its comprehensive trade strategy, Australia concludes WTO-consistent bilateral and regional free trade agreement (FTAs) where these yield significant market openings, are comprehensive, and complement and support multilateral liberalisation efforts. Australia negotiates high quality regional trade agreements which can serve as building blocks for wider multilateral liberalisation.

3.18 FTAs Implemented

3.18.1 ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)

3.64. The Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) entered into force for Australia on 1 January 2010. The Agreement is Australia's first multi-country FTA and in 2013 accounted for 18% of Australia's two-way goods and services trade with ASEAN. The deal provides tariff-free treatment on 96% of Australia's recent exports to ASEAN nations by 2020. Prior to AANZFTA's entry into force, only 67% of Australia's exports to the region were tariff-free. The AANZFTA FTA Joint Committee (FJC) oversees an in-built agenda covering goods; services; investment; intellectual property; standards, technical regulations and conformity assessment procedures; competition; sanitary and phytosanitary measures; and economic cooperation. The AANZFTA Economic Cooperation Support Program (AECSP) is supporting AANZFTA implementation and AANZFTA Parties benefit from a range of capacity building activities and technical assistance under the Agreement.

3.65. The Protocol to Amend the AANZFTA was signed on 26 August 2014 in Nay Pyi Taw, Myanmar. The Protocol addresses a range of administrative issues that are hindering business utilisation of AANZFTA's tariff commitments. It will enter into force 30 days after Australia, New Zealand and at least four ASEAN Member States notify completion of their respective domestic procedures. The WTO Committee on Regional Trade Agreements reviewed AANZFTA in September 2014.

3.18.2 Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)

3.66. The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) entered into force on 1 January 1983 and covers substantially all trans-Tasman trade in goods and services. Since 1 July 1990, all goods meeting the ANZCERTA rules of origin (ROOs) have been free of duty and quantitative import restrictions. In 2010, an ANZCERTA ROOs review recommended that Product Specific Rules (PSR) applying to a relatively small number of tariff lines for which factory-cost Regional Value Content requirements had been retained in 2007 be amended to Change of Tariff Classification-only rules, bringing them into line with other FTA

commitments. The Trade in Services Protocol brought services into ANZCERTA from January 1989, providing for free trade in services in all but a very small number of areas listed as inscriptions in an Annex to the Protocol. The Protocol is reviewed from time to time to ensure the scope for liberalising trade by removing remaining inscriptions is regularly tested. The Protocol on Investment to ANZCERTA entered into force on 1 March 2013. The Protocol will reduce compliance costs and provide greater legal certainty for trans-Tasman investors by providing higher thresholds at which foreign investments will be screened. ANZCERTA also provides the foundation for a large number of related agreements and arrangements to facilitate trade and promote economic integration. This includes mutual recognition arrangements relating to goods and registered occupations (the trans-Tasman Mutual Recognition Agreement) and the Single Economic Market initiative, which aims to create a seamless regulatory environment for business, consumers and investors on both sides of the Tasman Sea.

3.18.3 Australia–United States Free Trade Agreement (AUSFTA)

3.67. The Australia–United States Free Trade Agreement (AUSFTA) entered into force on 1 January 2005. AUSFTA has deepened Australia's trade and investment relationship with the United States. The Agreement sets out a broad range of provisions for liberalising trade and investment. It also contains substantial commitments in areas such as government procurement, competition policy, electronic commerce and intellectual property rights. As we approach the 10th anniversary in 2015, AUSFTA continues to provide a comprehensive set of rules for the strengthening of the economic relationship across all sectors.

3.18.4 Singapore–Australia Free Trade Agreement (SAFTA)

3.68. The Singapore–Australia Free Trade Agreement (SAFTA) entered into force on 28 July 2003. SAFTA is a comprehensive agreement, making substantial commitments in goods, services and investment between Australia and Singapore. In addition to complete tariff elimination, SAFTA guarantees liberal conditions of access for many service suppliers, and provides a more open and predictable business environment. SAFTA provides for ministerial-level review of the agreement every two years or as otherwise deemed necessary by Ministers. The first SAFTA review was held in July 2004 and the second SAFTA review was substantively concluded in July 2009.

3.18.5 Thailand–Australia Free Trade Agreement (TAFTA)

3.69. The Thailand–Australia Free Trade Agreement (TAFTA) entered into force on 1 January 2005. TAFTA achieved strong, liberalising outcomes on goods, eliminating immediately or locking in zero tariffs on 78% of Australian exports to Thailand and 83% of Thai exports to Australia at the time of entry into force. Under phased tariff elimination, around 95% of tariffs on goods traded bilaterally at the time of entry into force had been reduced to zero by the start of 2010, with the remaining tariffs phasing to zero in 2015 for Australia and in 2015 or 2020 for Thailand. TAFTA liberalises bilateral trade in services by binding "GATS-plus" commitments in some key sectors. TAFTA also mandates further negotiations on trade in services, with the aim of enhancing the commitments given by both Parties. The Agreement also provides for further negotiations on government procurement, business mobility, and investment and competition policy.

3.18.6 Malaysia-Australia Free Trade Agreement (MAFTA)

3.70. The Malaysia-Australia FTA (MAFTA) entered into force on 1 January 2013. The Agreement builds on outcomes from the ASEAN-Australia-New Zealand FTA, which started for Australia and Malaysia in 2010. MAFTA achieves a higher level of tariff elimination by Malaysia than under AANZFTA and accelerates AANZFTA tariff elimination commitments for both countries, and contains "AANZFTA-plus" outcomes on services and investment. MAFTA also includes business-friendly rules of origin provisions and commitments in other trade-related areas, such as intellectual property and electronic commerce. The WTO Committee on Regional Trade Agreements reviewed MAFTA in September 2014.

3.18.7 Australia-Chile Free Trade Agreement (ACIFTA)

3.71. The Australia-Chile Free Trade Agreement (ACIFTA) celebrated its fifth anniversary of entry into force on 6 March 2014. The Agreement is Australia's first bilateral FTA with a Latin American country. The first meeting of the Joint FTA Committee was held in Santiago on 26 May 2011 and the second in Canberra on 2-3 October 2014. The ACIFTA provides substantial liberalisation in goods and services trade. The agreement covered 99.5% of Chilean goods exports to Australia and 98.6% of Australian goods exports to Chile by value on entry into force. By 2015, tariffs will be eliminated on all traded lines. The Agreement delivers WTO-plus outcomes through commitments to open and non-discriminatory market access for services and investment, including but not limited to the key sectors of education, professional services, mining and engineering, management consulting and financial services.

3.18.8 Korea-Australia Free Trade Agreement (KAFTA)

3.72. The Korea-Australia Free Trade Agreement (KAFTA) entered into force on 12 December 2014. KAFTA is a comprehensive agreement that substantially liberalises Australia's trade with the Republic of Korea, its third-largest export market and fourth-largest overall trading partner.

3.73. Australia will eliminate 100% of its tariffs on Korean goods, including motor vehicles, automotive parts, plastics and steel, within seven years of entry into force of the Agreement, most on entry into force. KAFTA gives Australian exporters significantly improved goods market access. On entry into force, Korea's tariffs will be set at zero for 84% of Australia's exports to Korea, with most other tariffs phased out quickly. 99.8% of Australian goods exports will enter Korea duty free on full implementation. KAFTA protects Australia's competitive position in the Korean market, particularly in agriculture, where producers from other agricultural exporting countries are already receiving preferential access.

3.74. KAFTA gives Australian exporters significantly improved market access in goods and services and improves bilateral investment protections. The Agreement provides Australian services exporters with outcomes equivalent to the best treatment Korea has agreed with any trading partner. This includes new market access for suppliers of legal, accounting and telecommunications services and guaranteed access in a range of other services including financial and education services. The Agreement includes an investor-state dispute settlement mechanism, which incorporates safeguards in policy areas such as public health and environmental measures.

3.18.9 Japan-Australia Economic Partnership Agreement (JAEPA)

3.75. The Japan-Australia Economic Partnership Agreement (JAEPA) entered into force on 15 January 2015. JAEPA covers trade in goods and services, investment, intellectual property, government procurement and competition policy.

3.76. Australia will eliminate 100% of its remaining tariffs on Japanese goods, including vehicles and automotive parts, plastics, and textiles, clothing and footwear, within seven years of entry into force of the Agreement, most on entry into force. More than 97% of Australia's exports to Japan will receive preferential access or enter duty-free when the Agreement is fully implemented, including beef, wine, dairy, seafood and many horticultural products. On full implementation of JAEPA, all of Australia's current resources, energy and manufactured goods exports will benefit from duty-free entry into Japan.

3.77. JAEPA will ensure that customs procedures are applied in a predictable, consistent, transparent, impartial and reasonable manner to facilitate trade. JAEPA establishes transparent and effective rules of origin and clear origin procedures that promote compliance without creating red tape or unnecessary obstacles to trade. A specific mechanism to review and address non-tariff measures on a case-by-case basis will be established and will be activated at the request of either Australia or Japan.

3.78. The agreement goes beyond existing commitments on trade in services under the WTO, including in areas such as financial, education, legal and telecommunications services. It includes a framework to advance mutual recognition of services qualifications and to support mutual

recognition initiatives by professional bodies in Australia and Japan. JAEPA will provide enhanced protections and certainty for investors from both countries, with provisions to ensure non-discrimination, and protection and security for investments.

3.19 FTAs Being Implemented and Negotiated

3.19.1 China-Australia Free Trade Agreement

3.79. Prime Minister Tony Abbott and President Xi Jinping announced the conclusion of negotiations for the China-Australia Free Trade Agreement (ChAFTA) on 17 November 2014. Negotiations on ChAFTA were launched in May 2005, and concluded after 21 formal rounds of negotiations. ChAFTA is a comprehensive Agreement that will enhance the growing trade and investment relationship between China and Australia's highly complementary economies.

3.80. Australia will eliminate 100% of its remaining tariffs on Chinese goods within four years of entry into force of the Agreement, most on entry into force. ChAFTA will ensure the competitiveness of Australia's agricultural and manufacturing industries, protect and ensure the competitiveness of Australia's services providers and attract greater investment in Australia. Over 85% of the value of Australia's goods exports to China will enter duty free upon entry into force, rising to 93% after four years and 95% when ChAFTA is fully implemented. Australian services providers will benefit from new access to China's significant and growing services sector.

3.19.2 Pacific Agreement on Closer Economic Relations (PACER) Plus

3.81. The Pacific Agreement on Closer Economic Relations (PACER) Plus negotiations commenced in August 2009, and progress to date has been good in the comprehensive negotiations covering goods, services and investment. The most recent negotiating session, held from 29 September to 3 October 2014 in Wellington included representatives from Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

3.19.3 Australia-Gulf Cooperation Council (GCC) Free Trade Agreement

3.82. Australia and the Gulf Cooperation Council (GCC) FTA negotiations commenced on 30 July 2007. The GCC suspended FTA negotiations with Australia and all of its negotiating partners in 2009. On 4 March 2014, GCC Foreign Ministers approved conditional resumption of FTA negotiations, but did not indicate with which countries and when this would occur. Australia has been actively advocating being a priority country for the GCC. There is no indication yet as to when the GCC will resume FTA negotiations with Australia.

3.19.4 Australia-India Free Trade Agreement

3.83. Australia and India commenced negotiations in May 2011. Negotiations are still at an early stage, with five rounds of negotiations held to date and a sixth expected in early 2015. Securing access for goods and services in a large and growing trade partner is a priority.

3.19.5 Indonesia-Australia Comprehensive Economic Partnership Agreement

3.84. The entry into force of the ASEAN-Australia-New Zealand FTA for Indonesia in January 2012 provided the basis for the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) negotiations to commence. Negotiations are still in the preparatory phase, including consideration of the joint position paper submitted by the Indonesia-Australia Business Partnership Group (comprising Indonesia and Australia's respective chambers of commerce and bilateral business associations).

3.19.6 Trans-Pacific Partnership (TPP)

3.85. Australia is participating in the 12 party Trans-Pacific Partnership (TPP) Agreement negotiations along with Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam. Australia is committed through the TPP to achieving a high-quality, comprehensive, 21st century, regional free trade agreement, which will strengthen

economic integration in the Asia-Pacific region, particularly as membership expands over time. We are seeking a comprehensive outcome that includes new market access for Australian agricultural and other commodities, commercially meaningful outcomes for Australian service providers and investors, and rules that facilitate global value chains and deal with contemporary commercial challenges. Significant progress has been made in recent months and negotiations are now at an advanced stage. Australia hosted a meeting of TPP Ministers in Sydney on 25-27 October 2014 where significant progress was achieved in market access negotiations and on trade and investment rules.

3.19.7 Regional Comprehensive Economic Partnership Agreement (RCEP)

3.86. Leaders launched RCEP negotiations on 20 November 2012 in the margins of the 7th East Asia Summit. The RCEP negotiations include all ten members of ASEAN and the six countries which have FTAs with ASEAN: Australia, New Zealand, China, India, Japan and Korea. In 2013, the 16 participating countries accounted for almost half of the world's population and almost 30% of global GDP (in U.S. dollars). Together they accounted for around 59% of Australia's two-way trade in 2013. Six rounds of negotiations have been held to date, most recently in India in December 2014.

4 TRADE AND ECONOMIC OUTLOOK

4.1. Australia has traditionally been a net importer of capital. This has facilitated the development of our natural resources endowments at a faster pace than would have been possible if domestic savings were the only source of investment funds. Australia has traditionally run a current account deficit, reflecting the net inflow of capital from the rest of the world. According to the 2014-15 Budget, Australia's current account deficit is expected to widen to 4% of GDP in 2014-15, before narrowing slightly to 3.75% of GDP in 2015-16, driven mainly by changes in the trade balance.

4.2. Australia's trade balance moved into a surplus position in 2010-11. As commodity prices have moderated the trade balance has weakened, although it has moved back towards surplus on the back of increased commodities production. While export volumes will rise, further expected weakness in export prices means that the trade balance is likely to remain in deficit over the next few years.

4.3. Exporters are expected to benefit from the solid growth in Australia's major trading partners. The strong rise in resources exports over recent years is expected to continue as capacity in the resources sector continues to come on line. The already lower exchange rate is likely to support modest growth in non-commodity goods exports. Services exports have been improving, ending a period of weakness that began around the global financial crisis, and buoyed by higher tourism arrivals, particularly from China and South-East Asia, a trend that is expected to continue.

4.4. Imports of capital goods are expected to decline as construction on liquefied natural gas (LNG) projects winds down. Imports of consumption goods are expected to grow reflecting near trend consumption growth and the elevated exchange rate, but at more moderate rates than the average over the previous decade.

4.5. Australia's net income deficit is expected to widen as the economy transitions from the investment to the exports phase of the mining boom, due to the high degree of foreign ownership in Australia's resources sector.

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