
7 Impacts on business and government

As discussed in the previous chapter, Australia's bilateral and regional trade agreements have resulted in some reductions in barriers to trade and investment above those achieved by unilateral liberalisation and multilateral agreements. While reforms of that nature should help to 'open the market', the benefits obtained depend in large measure on the subsequent uptake of opportunities by business.

In seeking evidence on the impact of BRTAs on businesses, the Commission met with industry associations and sought follow-up information from their members, and drew on submissions to the study, and those made to the 2008 Mortimer review and to other reviews. Following the release of the Draft Report, the Commission received the results from surveys undertaken by the Australian Chamber of Commerce and Industry (ACCI) and the AFG Venture Group, commenting on the impact of BRTAs on some of their member and client businesses, as well as other feedback from participants. While the evidence obtained from business is quite limited and focuses mainly on the preferential style of trade agreement, when brought together, the responses collectively give some indication of the nature and extent of the impacts as perceived by business of such agreements.

The Commission also approached Australian Government agencies engaged in negotiating and administering Australia's preferential trade agreements to gain an indication of the costs to government of such agreements. While all departments involved in BRTAs were able to provide indicative estimates of costs, such information was not provided by DFAT.

This chapter first presents some broad assessments of Australia's preferential bilateral and regional agreements provided by business organisations and interest groups. It then reports on some specific impacts that businesses have suggested flow from Australia's agreements. The chapter then provides, in section 7.2, an indication of the costs to government of preferential agreements. Where possible, these costs are quantified.

7.1 Views of business

The Commission received a range of submissions from industry associations as well as some businesses, commenting on Australia's current policy of pursuing BRTAs.

While these submissions have generally been made with Australia's current preferential trade agreements in mind, some submissions make broad references to the potential future benefits that may arise from entering into such agreements. Submissions generally had an exporter perspective, focusing on issues of export market growth and market access, although broader impacts have sometimes been alluded to.

The potential for benefits

A number of participants made 'in-principle' comments on Australia's policy of pursuing trade liberalisation including through BRTAs and referred to the potential for bilateral and regional agreements to afford benefits to themselves, their industry or Australia more broadly. Others adopted a more cautious view of the potential benefits of preferential agreements as a trade liberalising measure.

In commenting on the potential for benefit for Australian business, Horticulture Australia Ltd stated that:

Higher value and additional [export] markets can be accessed and returns improved ... access to export markets either through liberalised tariff and other border measures, or through new and improved phytosanitary access, is important. (sub. 39, p. 11)

Similarly, the Winemakers Federation of Australia noted that it:

... is a strong and public supporter of the Australian Government's initiatives in increasing market access and facilitating trade in multilateral and bilateral forums. Bilateral free trade agreements represent an important alternative mechanism for locking in meaningful market access gains for Australian wine exports. (sub. 1, p. 6)

And the National Farmers' Federation (NFF) stated:

The NFF believes that the Australian Government should continue to pursue bilateral and regional trade agreements under strict principles. The political reality of the important role that bilateral and regional trade agreements can play is ever increasing. This comes not only from a desire to open up new markets and improve economic welfare but also derives from defensive reasons. (sub. 13, p. 8)

The Business Council of Australia suggested that existing Australian agreements had a pervasive beneficial impact on the Australian economy:

The negotiation of FTAs has also been an important means of reducing barriers to trade and investment, resulting in tangible economic benefits for both Australia and the other nations that have been a party to concluded agreements. (sub. 41, p. 1)

Observing the ‘slow moving nature and complexity of multilateral trade negotiations’, Ford Motor Company of Australia noted that comprehensive PTAs can:

... complement the WTO system, provided it makes good sense to do so ... [for example] Where there are genuine complementarities between negotiating countries with respect to their automotive manufacturing industries and fair potential trade opportunities ... (sub. 51, pp. 1–2)

Other participants gave more qualified views on Australia’s policy of pursuing preferential agreements or argued that Australia should only sign new agreements where they benefited Australia. For example, on the one hand the Australian Industry Group submitted:

The Australian Industry Group remains a strong advocate for both multilateral trade negotiations and free trade agreements which deliver real benefits to Australian industry. Ai Group supports the principles of expanding free trade and recognises the many potential benefits for companies including the reduction of import duties, reduced barriers to investment, improved market opportunities and increased labour mobility. (sub. 7, p. 1)

On the other hand, it went on to state that:

... the existence of trade agreements in, and of, themselves is not sufficient to fully realise the potential of Australia’s export growth. Further, while acknowledging that FTAs cannot alone resolve all the barriers which confront Australian companies in the international trading environment, the potential benefits of FTAs are not being fully realised by Australian exporters. (sub. 7, p. 1)

The Department of Agriculture, Fisheries and Forestry (DAFF) suggested that not all potential agreements offered the same level of benefits to Australia:

Despite the broad opportunities for Australian agriculture through FTAs, the potential benefits of some of Australia’s current and future negotiations are varied. For example, achieving comprehensive FTAs with Japan, China, the Republic of Korea and Malaysia would mean Australian agriculture has preferential access to the majority of its most valuable export destinations. In contrast, Australia’s agricultural exports to Pacific Island Countries (excluding New Zealand) are less of a focus in the negotiations towards a Pacific Agreement on Closer Economic Relations (PACER) Plus. (sub. 6, p. 2)

The Law Council of Australia voiced reservations about preferential agreements:

... the world trading system is best served through the World Trade Organisation Agreements. Preferential trade agreements have the potential to undermine the multilateral trading system ... Australia should enter into such agreements only where it is demonstrated that the agreement will deliver substantial economic benefits to Australia within a reasonable period of time ... (sub. 47, p. 3)

The conditional nature of general comments on the liberalising potential of BRTAs amongst industry groups suggests that the delivery of benefits through BRTAs is not straight forward. Information to support the assessment of the extent of benefits actually accruing to businesses, however, is limited to small qualitative surveys of business experience with mixed results. A paradox seems to exist between the views of a number of industry associations, which have expressed policy support for Australia's approach to pursuing preferential agreements as well as their potential for delivering benefits and the lack of widespread evidence from businesses as to the size of benefits.

The extent of benefits for some business

The primary purpose of bilateral and regional trade agreements is to reduce border — and behind-the-border — barriers to trade in Australia and its trading partners. One of the more visible barrier reductions of such agreements is the regulatory and tariff changes achieved in Australia's export markets, and the potential benefits these can provide to Australian exporters.

The ABS estimates that 43 259 Australian businesses exported goods in 2008–09 (ABS 2010). Of these only a small number have responded to surveys about the impact of trade agreements or their prospects, or made a submission to this study. Although the coverage of exporters is too small to draw general conclusions, the responses together with those of industry associations provide an indication of how agreements can affect some firms.

Manufacturing exports

In its submission, the Australian Industry Group (which represents a range of Australian manufacturing industries) provided the results of a survey it undertook in 2009 of its members about member perceptions of the effectiveness of Australia's recent preferential trade agreements. Fifty responses were received. In respect of those responses:

- Of the 22 businesses that exported to the United States prior to the signing of the AUSFTA, 55 per cent (12 businesses) reported that agreement was 'moderately or highly effective', while for businesses exporting to Chile, only 17 per cent (2 businesses) reported the same (sub. 7, p. 9).
- Twenty two per cent (5 businesses) said that the AUSFTA had been 'moderately or highly effective' in providing new export opportunities, although 59 per cent reported a 'moderate or highly effective' impact in relation to accessing markets in the United States (sub. 7, p. 9).

The American Chamber of Commerce in Australia provided a series of qualitative responses (assembled by Austrade) by 62 businesses that had made use of, or hoped to use, various provisions under the AUSFTA, SAFTA and TAFTA (sub. 58, pp. 4–28). These remarks were mainly by small and medium enterprises — although some larger firms were also included in the survey.

Around half of the firms contacted indicated that a trade agreement had provided them with an advantage over competitors as a result of tariff reductions. For some of the businesses, this allowed them to enter a market for the first time, with around 20 firms indicating that they were a new exporter to a particular market as a result of an agreement. Roughly the same number of respondents were existing exporters into a market, most of whom believed that tariff reductions would allow them to increase their export sales in the future. For example, Dickins McLeod Engineering stated that:

Exports make up 20 per cent of our revenue, but we are confident we can make that 80 per cent in [the] next two to three years. This is all due to the zero tariff that our diggers benefit [from] in the US thanks to AUSFTA. (sub. 58, p. 13)

And Alcoa Australia commented on the benefit of tariff reductions in Thailand:

Elimination of the duty on aluminium ingot has provided Alcoa with a competitive advantage in Thailand ... any duty preference we can obtain that other competitors do not is an advantage (sub. 58, p. 27).

Some merchandise exporters contacted by Austrade reported benefiting from increased access to government procurement opportunities, particularly in the United States. For example, Sealite, an exporter of navigation equipment and lights stated:

We had no effective market access before AUSFTA because American government agencies couldn't buy directly from Australian companies. But that has all changed for us, thanks to AUSFTA. The US is becoming a major market for us. (sub. 58, p. 11)

A small survey of businesses was also undertaken for the Mortimer review in order to gauge the impacts of BRTAs. Of the 31 respondents to that survey, firms reported that agreements recently entered into by Australia's had improved access to export markets, increase export volumes and pricing, and had also had a 'head turning' effect (Mortimer 2008, pp. 97–99). For example, Powerdown Australia reported that tariffs eliminated as part of TAFTA had 'improved the competitiveness of their exports, and allowed them to hold and strengthen their position in the market, despite competition from large suppliers and Thailand's domestic automotive parts sector' (Mortimer 2008, p. 99).

However, even when Australia has negotiated lower tariffs through an agreement, other factors can intervene to reduce the benefits achieved. In its submission, Ford Motor Company indicated that while it had good prospects for increasing exports of utility vehicles to Thailand under TAFTA when the agreement was made, a restructuring of excise taxes to favour small vehicles by the Thai Government just prior to the agreement coming into force had become a substantial behind-the-border barrier:

The effect of this new domestic taxation structure was to place the Ford Territory at a significant price disadvantage, seriously eroding its potential competitiveness. Consequently, the trade opportunity originally identified has evaporated and exports of the Ford Territory to Thailand remain inconsequential. (sub. 51, p. 2)

Other participants to this study noted that BRTAs could result in increased competition in the Australian market without delivering reciprocal market opening in overseas markets, to the detriment of their operations. For example, LyondellBasell Australia observed:

Some existing FTAs (eg NZ, US, Singapore) have delivered equal duty free status for polypropylene but other agreements with Thailand and now ASEAN have delivered very unequal market access arrangements. In the case of Thailand inbound duty free access was granted in 2008 whilst Australia has only just (from 1/1/2010) been granted duty free access outbound to Thailand. In the case of the most recent ASEAN FTA, the reciprocity of market access agreed is even less equitable for LyondellBasell. Whilst all ASEAN producers have been given duty free access into Australia from 1/1/2010, once ratified, Australia's improved access to ASEAN markets varies widely country to country both in terms of duty level and timing. The best illustration of this point is for our access to the Philippines and Malaysia, both key target export markets for LyondellBasell. Malaysian tariffs will not reduce to zero until 2016 and for the Philippines will reach a minimum of 12% by 2020. ASEAN producers have duty free access to these markets which makes it virtually impossible for LyondellBasell to compete.

... Consequently the unfortunate reality is that the current FTA regimes in place mean that we have even more disadvantaged access to especially ASEAN markets than before. (sub. 16, p. 1)

While both the surveys and responses prepared by the Australian Industry Group and Austrade, as well as the responses to the earlier survey conducted for the Mortimer review, focus on Australian exporters, the Commission has not received any feedback from businesses using imported intermediate goods indicating whether BRTAs have resulted in input price reductions.

Agricultural exports

Some agricultural industry groups provided examples to the Commission of benefits they had received from Australia's BRTAs. For example, the Australian Dairy Industry Council (sub. 38, p. 9) noted that 'for dairy, there has been some competitive advantage in the reduction or removal of tariff barriers through recent FTAs'. Similarly, the Office of Horticultural Market Access submitted that:

... tariff outcomes under bilateral and regional trade agreements are nearly always superior to Most Favoured Nation (MFN) tariff rates ... (sub. 39, p. 3)

The American Chamber of Commerce in Australia's submission of Austrade remarks provided a number of examples of benefits to Australian agricultural producers (sub. 58, pp. 4–28). For example, beef, dairy, citrus and olive producers all reported that the reduction in US tariffs under AUSFTA had been beneficial to their business.

The Winemakers Federation of Australia noted that its experience with preferential trade agreements was mixed:

Under the Thailand–Australia Free Trade Agreement, ... Australian wine faces an import duty of 28 per cent from 1 January 2008 compared with the MFN rate ranging from 54.6 to 60 per cent and as a result we have secured significant market gains ...

The benefits to the Australian wine industry [from the AANZFTA] were limited and restricted to tariff concessions from Vietnam and Philippines. (sub. 1, p. 6)

It also noted that in relation to liberalisation of non-tariff barriers to trade, 'relatively little benefit has been received by the wine sector' from the BRTAs negotiated so far.

DAFF also noted that barrier reductions had been achieved across a range of agricultural products:

For example, under the Australia–Thailand FTA the tariff on table grape exports to Thailand was immediately reduced from 33 per cent to 30 per cent, and will be phased to zero by 2015. Between 2003–04 and 2008–09 there has been an over four-fold increase in table grape exports, which are now valued at over \$24 million. Australian beef exports to Thailand have also benefitted. The tariff on beef was reduced from 51 per cent to 40 per cent on commencement, and will be reduced to zero by 2020. The value of beef exports to Thailand has more than doubled between 2003–04 and 2008–09.

Under the Australia–US FTA (AUSFTA) the immediate elimination of the in-quota tariff of US4.4 cents/kilogram on beef has been worth approximately \$45 million to the Australian industry between 2005 and 2008. Under AUSFTA Australia also gained new duty free access to tariff rate quotas for a range of cheeses and cheese exports to the US have risen from \$33.9 million in 2003–04 to \$59.7 million in 2008–09. (sub. 6, p. 2)

However, the exclusion of particular industries from agreements will also reduce the benefits that are realised. In this regard, the Australian Sugar Industry Alliance, while supporting the negotiation of comprehensive bilateral PTAs ‘that include worthwhile improvements in market access’, noted that the AUSFTA totally excluded sugar and that:

In each of the FTAs Australia is negotiating, the agricultural aspects, especially for sensitive products such as sugar, are proving to be difficult. Almost without exception our counterparts, perceiving a threat from unrestrained Australian imports, are strongly supporting the exclusion of sugar from any agreement. (sub. 15, p. 5)

Further, the National Farmers’ Federation stated that:

Australia’s completed bilateral and regional trade agreements are far from being perfect outcomes for Australian farmers and indeed the Australian economy ... Furthermore, it is clear that there is increasing pressure on the Australian Government to lower its ambition in the ability for future trade agreements. The NFF encourages the Australian Government to resist this pressure.

... In saying this, the NFF acknowledges that for many agricultural commodities, commercial opportunities for trade have improved as a result of existing bilateral and regional trade agreements. (sub. 13, p. 15)

The NFF also highlighted the myriad other factors that can influence the level and value of Australian exports (not just agricultural exports), including exchange rate conditions and other supply and demand factors.

Market conditions must still be favourable (e.g. exchange rates and demand and supply factors) in order to realise these opportunities, but the reality is that in many cases, tariffs have been lowered and quotas have been increased. (sub. 13, p. 15)

In a similar vein, DAFF commented on various impediments to achieving benefits from Australia’s agreements:

Australia’s limited agricultural productive capacity and desire to maintain exports to historic markets do not make it easy to quickly increase or divert trade in response to new agreements. ... Agricultural outcomes in FTAs can be restricted by long phasing periods, safeguards mechanisms, limited technical (quarantine) market access or the fluctuating Australian dollar which can negate tariff reductions. (sub. 6, p. 3)

Services exports

Services comprise the largest component of Australia’s economy (approximately 80 per cent in 2008–09) and are a growing component of Australia’s trade. Some businesses did report that Australia’s BRTAs had improved the trade in services and investment. For example, Telstra noted that the BRTAs concluded so far:

... have had a positive impact on Telstra's investments in foreign telecommunication services markets and that opportunities exist for the Government to improve again on these outcomes. (sub. 31, p. 2)

Further, some of the 62 firms contacted by Austrade reported actual or prospective benefits to them from Australia's recent bilateral agreements (sub. 58, pp. 4–28). For example, a number of businesses indicated that they had benefited from an ability to send employees to Singapore and Thailand for short-term projects without the need to obtain work visas. A number of education service providers also indicated that under SAFTA, establishing partnerships with Singaporean institutions had become much easier.

However, some of Australia's larger service industry groups did not report that there had been evident benefits, despite the inclusion of a services chapter in most of Australia's BRTAs (chapter 6). For example, the National Institute of Accountants (NIA) stated that:

... while we believe the nation as a whole has benefitted in a macro sense, the NIA and our members have not enjoyed the benefits of such agreements. That is, while most current trade agreements have a [Mutual Recognition Framework] to support the recognition of professionals, including accountants in the other jurisdiction, it is our understanding that no framework for the recognition of accountants has yet been established. Therefore in spite of such trade agreements with a number of countries, the NIA has not seen any improvement in the ability of our members to work in such countries. (sub. 20, p. 4)

And while the Business Council of Australia pointed to AUSFTA and its reduction to barriers for the legal sector as an example of tangible benefits (sub. 41, Attachment 1, p. 18), the Law Council of Australia suggested that the benefits of any reduction in barriers were not the result of Australia's BRTAs:

... from a services perspective and, in particular, legal services perspective, it has been the Law Council's experience that greater opportunities for the export of services to other jurisdictions has been achieved through direct negotiation with relevant stakeholders overseas (e.g. bar associations, courts and government) rather than through preferential trade agreements. (sub. 47, p. 3)

While it did not make a submission to this study, in its submission to the 2008 Mortimer review, the Australian Services Roundtable suggested that BRTAs had not achieved much with regards to liberalising services trade. In that submission, the ASR noted:

The negotiating intention has been to obtain, and to the extent possible retain, a margin of preference for existing Australian exporting firms. Australia's negotiating mandates have been too narrowly focused on achieving small wins on market access, rather than on achieving deeper microeconomic reforms. Domestic regulatory issues have been largely off the agenda as not part and parcel of bilateral preferential negotiation ... As a

consequence, Australia's FTA agenda has been of limited actual value in improving the business environment for enhanced trade and investment in services. (ASR 2008, pp. 20–21)

In part, the lack of evidence on the extent of gains to Australia's services industries may be explained by the nature of the barriers they face. Although chapter 6 reported a reduction in barriers to services trade in Australia's BRTAs, high-level agreements between national governments may be unable to achieve substantive liberalisation in practice because, for many service industries, the actual barriers to trade are administered outside government. For example, in most Australian professional services, the requirements for registration and professional practice are not regulated by the Australian or even state governments, but by professional associations. In the absence of a commitment to reduce barriers by the relevant professional bodies, effective liberalisation of services trade may not be achievable without supporting agreements between national standard setting and professional bodies. To this end, the ASR noted that 'the most constructive outcomes have been the establishment of ongoing working groups and committees to examine [the] possibility for regulatory harmonization or mutual recognition over time' (ASR 2008, p. 21).

Scope for other benefits

In some cases, a BRTA may not immediately lead to increased trade between member countries. However, the reduction in trade barriers in a particular export destination can provide business with additional export 'options' in the future, given appropriate market conditions. One example provided to the Commission is the case of beef exporters to the United States. While beef producers may not have fully taken advantage of the more liberal market access arrangements to the United States following the signing of the AUSFTA because of more lucrative markets elsewhere (partly as a result of the mad-cow disease scare), the improved access arrangements to the US market nonetheless do represent a contingent benefit for the Australian industry. Such developments can give domestic producers a greater incentive to increase their productive capacity in the knowledge that an alternative — and relatively accessible — export destination exists.

The Australian Dairy Industry Council also commented on the potential for benefits of this type:

Our experience also shows that FTAs are beginning to have a 'head turning' effect on trade, ie. customers in FTA partner markets such as Thailand now look at opportunities for supply from Australia ahead of other suppliers as they see the commercial advantage of setting up long term business relationships linked with FTA preferences. (sub. 38, p. 5)

Additionally, reduction in trade barriers can heighten competition between countries importing Australian products. For example, the Australian Dairy Industry Council observed:

Expanding market opportunities through FTAs can also have positive indirect effects on commercial trade. For example, the creation of new profitable market outlets in countries such as the US can have the effect of firming up Australia's negotiating position with buyers in third country markets. The increased flexibility in Australia's trading options can lead third country buyers to seek to lock in improved long term relationships with Australian suppliers. (sub. 38, p. 5)

By raising the profile of bilateral and/or regional relationships, trade agreements may also have a 'head turning' effect that is favourable to business. Such potential effects were noted by Universities Australia in relation to the Australia–Chile agreement:

The recently signed FTA includes a chapter on cooperation. This chapter along with the government to government Memorandum of Understanding on Education, were a key impetus in the Chilean government seeking the involvement of Universities Australia as their partner in the delivery of the Chilean Bicentennial Fund Scholarship program in Australia. Therefore while the FTA does not specifically cover education, its signing has raised the profile of Australia in Chile and provided the basis for substantial increased activity in Chile by Australian universities. (sub. 17, p. 3)

Similarly, Austrade indicated that there was a clear increase in client activity in the 12 months preceding — and 18 months following — the signing of the Singapore, United States and Thailand trade agreements (sub. 52, p. 10). This suggests that the promotional activity surrounding trade agreements can stimulate some businesses to consider export markets they might not otherwise have focussed on.

Responses to the Draft Report

In its Draft Report, the Commission noted that the evidence of significant benefits to business was limited and sought further information from participants on the specific impacts that BRTAs have on businesses. While some further information was subsequently received, the response tends to reinforce the picture in the draft.

Some industry associations provided additional examples of the negotiated tariff reductions in Australia's agreements (for example, Australian Pork Ltd, sub. DR91, p. 7) and/or pointed to the ex ante economic modelling of the benefits that could flow from future agreements (for example, Cattle Council of Australia, sub. DR97, p. 4). The Australian Chamber of Commerce, Singapore, gave the examples of an Australian law firm, a brewery and universities being enabled to increase exports to Singapore following the introduction of SAFTA (sub. DR71, p.1–2).

In relation to trade in services, the International Legal Services Advisory Committee (ILSAC) (sub. DR96, p. 4) noted that:

... Although it is difficult to quantify the economic impact of FTAs, ILSAC considers that bilateral and regional trade agreements have produced positive results for Australia's legal services sector ...

In discussing the type of foreign market access sought by the Australian legal profession, ILSAC noted that:

... the level and scope of access for lawyers engaged in providing business/commercial legal services internationally does not have to extend to becoming a local lawyer with all the rights that full admission provides a local lawyer. The country-specific nature of legal practice means it is unrealistic to expect total recognition of a right to practise. Corporations, financial institutions and other clients involved in cross-border commercial transactions seek legal *advisory* services covering the laws of jurisdictions in which the transaction spans. Australia, therefore, does not seek market access for Australian lawyers to provide *consumer* legal services, such as those relating to family law, wills and personal injury. Nor is a right to represent clients in local courts sought, other than a right to appear in international commercial arbitration. (sub. DR96, p. 5)

In practice, it appears to the Commission that for services liberalisation, the existence of a BRTA (either concluded or in negotiation) can be a catalyst for negotiations between sub-government service regulators (including professional services bodies). ILSAC noted that

In some cases FTAs have directly resulted in the alleviation of trade restrictions. In others they have provided a platform for the legal profession to address barriers through direct negotiation with overseas counterparts ... (sub. DR96, p. 6).

Along these lines, the Law Council of Australia indicated that during recent government-to-government negotiations for an Australia-India BRTA, it was engaged in 'parallel dealings with the Bar Council of India which ultimately resulted in the signing of a Memorandum of Understanding intending to promote further integration and cooperation between each body ...' (sub. 84, p. 6). This view supports the previous statements about services liberalisation made by the Australian Services Roundtable.

However, apart from the example of legal professional services, the Commission received no further specific evidence of benefits of BRTAs for services industries.

A more systematic attempt to provide data to the Commission on the benefits of BRTAs to business was undertaken by the Australian Chamber of Commerce and Industry, in response to a request by the Commission for information about member experiences (sub. DR87). In conjunction with its state chambers of commerce, bilateral business councils, the Australian Federation of Employers and Industries

and the Australian Institute of Export, ACCI surveyed its exporting member businesses, asking about their experiences with Australia's current BRTAs, including the extent of benefits they had received. The details of this survey were sent to over 5000 of ACCI's member businesses, with approximately 600 accessing the survey questions on-line. However, only 51 respondents completed the survey (sub. DR87, Attachment 1, p. 1). In summarising the results of this work, ACCI noted in part that:

- A small number of companies believed that FTAs had positively benefited their business, although some companies remained sceptical and did not view BRTAs as of benefit to their business;
- At best, based on the survey results, FTAs are marginally beneficial to business. This is consistent with previous findings, the findings of other business surveys, and the views of a number of industry groups;
- The promotion of the bilateral FTA market as a good place to do business is benefiting business when choosing markets, but actual market access issues do not appear to have significantly improved. (sub. DR87, p. 8)

In particular, ACCI noted that businesses reported that 'practical trade facilitation measures' such as the Export Market Development Grant scheme were more beneficial to business than BRTAs (sub. DR87, p. 9).

The Commission also approached other business groups during the study for information about member experiences, but did not receive any further information.

On a different tack, the AFG Venture Group submitted the results of surveys of business views on the economic environment in various Asian countries¹, which among other things allowed the tracking of respondents' BRTA expectations against eventual outcomes, particularly in relation to the Thai agreement. The surveys found that, in 2004, 70 per cent of respondents had a 'positive' perception of TAFTA, but by 2008 only 20 per cent responded positively, while 'negative' perceptions of the agreement grew over the same period, and increased substantially between 2008 and 2009 (sub. DR69, Attachment 1, p. 9). AFG noted that while '... expectations had been very high but the achievement had been low', most of the respondents supported the further development of FTAs (AFG Venture Group, sub. DR69, Attachment 1, pp. 8–9). (The surveys did not seek views on whether respondents would value other government support more highly than BRTAs).

¹ AFG received responses from approximately 150 businesses to its 2004 and 2009 surveys, and responses from around 400 responses its 2008 survey.

There are a number of possible reasons for this limited evidence of substantial benefits for business from Australia's BRTAs. In its response to the draft report, the Office of Horticultural Market Access stated:

Horticulture is not surprised at the finding of limited evidence of 'substantial commercial benefits' from BRTAs ... a range of other factors can impact on trade generation and outcomes. The attribution of trade outcomes to any particular influencing factor is quite often difficult where many factors are impacting.' (sub. DR70, p. 2)

Along the same lines, some also suggested that the main benefits are retention of existing market share, rather than new gains. For instance, the National Farmers' Federation noted that commercial benefits would include avoiding the 'commercial losses that accrue when we do not have a trade agreement with a country that has a preferential arrangement with a competitor to Australia' (sub. DR85, pp. 5–6). In essence, it was suggested that some businesses might not be conscious of the benefits they are receiving from BRTAs, or that the benefits they are receiving are resulting from BRTAs.

Another explanation for the limited evidence of business benefits from Australia's BRTAs is that, in practice, the benefits have generally been modest, either because the agreements have not effectively addressed many commercially significant barriers to trade and/or because businesses have been unable to avail themselves to the opportunities afforded. Along these lines, ACCI stated:

While BRTAs have had little effect in the eyes of business, the BRTA agenda remains stronger than other trade facilitations efforts. ... One reason for the over-emphasis on BRTAs in trade facilitation is that they are process driven, and can subsequently lack strategic direction and coordination across the spectrum of trade related issues. (sub. DR87, pp. 8–9)

Compliance and administration costs

In addition to commenting on commercial benefits that BRTAs afforded businesses and industries, some participants also commented on the costs of accessing preferential access under a BRTA, including the costs of complying with rules of origin (RoO). There are also other costs that can result from changes in regulatory and administrative requirements following the signing of a trade agreement.

RoO have the potential to impose costs on businesses in two ways:

- For businesses producing a good for export that does not meet the prevailing rule of origin, there may be an incentive to shift to a less efficient input mix or production process in order to meet the rule (and thus qualify for the preferential tariff).

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- There is a range of administrative ‘paperwork burdens’ associated with meeting and proving compliance with rules of origin. These can include recording and keeping the necessary documentation proving that goods meet a particular rule, purchasing certificates of origin from certifying authorities and submitting those along with exports, and a variety of other administrative activities.

In its submission, DFAT suggested that:

As the number of FTAs has increased criticism has been levelled at ROO for the creation of a so called ‘spaghetti bowl’ or ‘noodle bowl’ effect. Critics argue that the multiplicity of rules in each agreement and between FTAs creates confusion and is an unnecessary barrier for business. These claims overstate the impact that multiple ROO have on an exporter. While an FTA may have a number of different ROO, an exporter only needs to be concerned with those ROO which relate to their products. In Australia’s case there is a great deal of harmonisation among our ROO. Most changes to Australia’s ROO in more recent FTAs – for example, in the PSRs [Product Specific Rules] in ANZCERTA, ACI-FTA and AANZFTA, compared to the PSRs used in AUSFTA and TAFTA – are due to refinement of the rules to remove unnecessary restrictions and to provide exporters with greater choice. Further, a regional FTA like AANZFTA – which links 12 countries – should significantly simplify trade arrangements for exporters. (sub. 53, pp. 18–19)

On the other hand, a number of participants suggested that additional costs to business and complexity arose with rules of origin. The Commission heard from participants that RoO are a cost on exporting businesses, and in particular that the ‘spaghetti bowl’ of overlapping BRTAs (and associated RoO) can increase these costs (box 7.1). In its response to the draft report, DFAT noted that a regional work program had just begun that was seeking to improve the ‘complementarity and coherence’ or RoO in the region. (sub. DR 98, p. 9).

Other costs

There can be both increases and reductions in other administrative and compliance costs for business that arise in the context of BRTAs, including costs associated with the administrative procedures of overseas customs services or product standards and certification/accreditation requirements, or getting professional qualifications recognised by overseas registration boards. Similarly, there can be costs associated with meeting the process requirements for government procurement, and there are usually significant costs associated with addressing the criteria governing foreign investment, such as meeting minimum threshold requirements for domestic ownership.

Box 7.1 Participant views on rules of origin

A number of participants provided their views on the costs and complexity that arise in the context of rules of origin:

For merchandise trade, costs may vary depending on the nature of the rules of origin. In this regard, Australian businesses are largely satisfied and accustomed to provisions which prescribe 50 per cent Free-on-Board value to qualify for Australian origin. Although CTC provisions can assist some products to qualify more easily, Australia does not have an exporter community which is highly educated in Harmonised System codes or customs practices to a great degree. (Australian Industry Group, sub. 7, p. 7)

As the AMWU has noted in previous submissions, supporters of the benefits of bilateral and regional FTAs tend to underestimate or ignore some of the costs of such agreements. One additional layer of cost is found in the complexity of rules of origin required for preferential tariff treatment under such agreements...The bottom line appears to be that AUSFTA rules of origin using the CTC method have adopted certain administrative procedures that are less of a day-to-day burden for importers and exporters — until such an import or export company is audited, when that light-touch day-to-day record-keeping is often lacking in sufficient detail. The costs of differing and complex rules of origin are born by exporters, consumers and ultimately the entire world economy via the problems they create for a single properly functioning multilateral trading system. (sub. 21, p. 5)

... [I]t is critical that consistency of the respective rules be applied across all agreements as it makes both compliance easier and ensures that border authorities are familiar with the rules that apply for each country. (Employers and Manufacturers' Association (Northern), sub. 11, p. 6)

The most notorious example of the increased cost to business is the differences between preferential trade agreements in, and the complexity of, rules of origin. Rules of origin have the potential to render compliance costs which exceed the preferential duty rate to be obtained through compliance. (Law Council of Australia, sub. 47, p. 4)

Several submissions noted that BRTAs can lower such regulatory compliance and administrative costs. For example, at a broad level, the Australian Industry Group observed that:

The benefits of FTAs go beyond market access and tariff reductions. Comprehensive FTA provisions can also open opportunities by addressing behind the border non-tariff barriers. This can include reducing business costs and time from streamlined regulatory arrangements such as licensing and reciprocal recognition of standards and qualifications. (sub. 7, p. 4)

However, while the potential for gain exists, the mere complexity of BRTAs can make it difficult for businesses — particularly small businesses — to fully appreciate the requirements placed upon them. On this point, the Australian Industry Group added:

FTAs are extremely detailed, complex agreements which are crafted in legalistic language. This can make FTAs particularly difficult for SMEs to decipher and comprehend exactly ‘what’s in it for them’ and how to best capitalise on provisions delivered by the specific agreements. (sub. 7, p. 11)

The Commission did not receive feedback from businesses that BRTAs had reduced their compliance or administrative costs.

While BRTAs can be perceived by business to achieve reductions in border and behind-the-border barriers, businesses also recognised that compliance and administrative costs, as well as the general complexity of such agreements, can hamper their ability to benefit from these lowered barriers.

FINDING 7.1

Businesses have provided little evidence that Australia’s BRTAs have generated significant commercial benefits. The information available suggests that, where benefits accrue, they are mainly to existing exporters.

7.2 Impacts on government

BRTAs also result in costs (and potentially benefits) for the Australian Government and, to a lesser extent, state and territory governments. In any assessment of the economic impacts of BRTAs, the costs incurred by governments (and ultimately borne by taxpayers) is relevant.

As the lead government responsible for negotiating and implementing trade agreements, the Australian Government incurs a range of administrative costs as part of its policy to pursue bilateral and regional trade agreements. Some of these costs are not attributable to particular agreements — for example, developing trade and related policies that have a whole-of-government focus. However, other costs, such as those incurred in the preparation of feasibility studies, and negotiation rounds, do relate to specific agreements.

This section examines some of these costs, as well as the projected reductions in tariff revenue as a result of Australia’s agreements.

Pre-negotiation costs for BRTAs

Government departments undertake a range of activities prior to the commencement of formal negotiations for a BRTA. Traditionally undertaken or coordinated by DFAT, these activities can include bilateral meetings with government officials

from the potential partner country to familiarise themselves with the trading and regulatory systems of the respective countries. At this time, DFAT will often consult with Australian businesses and industry bodies, as well as other government departments, in order to establish the ‘offensive’ and ‘defensive’ interests of various parties; that is, to garner views on the outcomes that should be sought and the concessions that could be made.

Prior to the negotiation of each of Australia’s six current BRTAs, as well as with each of the agreements currently under negotiation, the Australian Government has prepared a feasibility study to publically explore the potential costs and benefits to Australia. These feasibility studies give interested parties a chance to provide a public submission on their views of the proposed agreement. They often contain economic modelling of the potential impacts of an agreement. However, the extent to which these feasibility studies have accurately estimated the actual impacts of agreements — and perhaps conditioned unrealistic community expectations regarding the potential benefits of particular agreements — is not without debate. Some of the issues surrounding feasibility studies are considered further in Part D.

Negotiation costs

While the familiarisation, research and consultation activities mentioned above consume some government resources, potentially the most significant cost incurred in the development of a BRTA, as in multilateral agreements, is that of negotiating an outcome with the countries concerned. Negotiation costs stem from the direct financial costs of staff time and other financial outlays, such as travel expenses, for DFAT and other participating government departments.

Negotiations generally involve ‘rounds’ of meetings between officials of Australia and the partner countries, with the hosting of such meetings usually alternating between countries. A range of factors makes comparing the negotiation costs of various agreements difficult (such as whether the countries involved share a language, and the distance between the countries), although as a general rule the more protracted the negotiations the more expensive they are to negotiate. While some of Australia’s previous negotiations have concluded reasonably quickly (for example, negotiations for AUSFTA commenced in 2003, and were concluded after five rounds in 2004), others have taken considerably longer. For instance, negotiations for the proposed Australia–China agreement commenced in 2005 and are yet to be concluded (DFAT 2010b), with nine negotiating rounds having been held in Beijing and six in Australia. This also applies, of course, to multilateral negotiations under the WTO, with the Doha Round now into its ninth year,

compared to seven-and-a-half years in total for the earlier Uruguay Round, and just three years for the Kennedy Round (table 4.1).

In considering the overall costs and benefits of BRTAs, the costs of negotiating such agreements need to be taken into account. While in some cases they will be small relative to other costs and benefits, they may be important where agreements are more finely balanced (for example, with smaller countries). An understanding of the costs of negotiations is also important for determining to the extent to which disciplines should be placed on the negotiation process to bring about swifter outcomes. The provision of estimates of the costs incurred in developing the various trade agreements Australia is or has been pursuing could also help to establish the appropriateness of the balance of government resources directed towards the different negotiations, as well as between trade negotiations and other government priorities.

Some data on the cost of negotiations are available in recent budget papers. In the 2006–07 budget, supplementation funding of \$6 million was provided to a range of departments to participate in the negotiations for an Australia–China BRTA (Australian Government 2006). And in the 2007–08 budget, \$12.7 million was provided over two years for departments to continue those negotiations. In addition, \$4.3 million was allocated to agencies over two years to facilitate negotiation of an Australia–Japan BRTA. However, these appropriations represent only additional resources for government departments, above their baseline funding, and as such do not provide a complete picture of the costs of those negotiations. Such figures should also be seen in the broader context and the Commission does not have information on the cost of Australia’s participation in APEC over the years or the Australian Government’s cumulative investment in the Doha Round negotiations.

As part of this study, the Commission requested estimates from each Australian Government department of the cost of its participation in such negotiations. The Commission requested an estimate of each department’s total expenditure in 2008–09 on BRTA negotiation activities, including, where relevant, estimates of the costs incurred in travel.

For departments with a more material involvement in BRTA negotiations, the Commission also requested information on the total costs incurred in negotiating the:

- Australia–US Free Trade Agreement;
- Thailand–Australia Free Trade Agreement;
- ASEAN–Australia–New Zealand Free Trade Agreement; and
- Australia–China Free Trade Agreement (to date).

For comparison purposes, the Commission also requested estimates from each department of their costs incurred to date in negotiating the WTO Doha Round.

The Commission received estimates from each government department involved except for DFAT, which said in response that it is not in a position to estimate the costs of its activities in this way (box 7.2).

The Commission finds it difficult to reconcile DFAT's position regarding the estimation of expenditure on one of its key functions. The preparation of cost estimates of this nature, including the allocation of joint costs among different functions, with caveats where necessary, is a common practice in the public sector. Several of the estimates provided by other departments involved attributing staff time and costs between BRTAs and other activities. DFAT's counterpart in New Zealand has previously published an estimate of the costs it incurs in undertaking BRTA negotiations.² DFAT itself has previously been able to provide some estimates of this nature, covering for instance the number of staff deployed in the Office of Trade Negotiations and the estimated proportion of their time spent on WTO activities vis-à-vis BRTA negotiations.³ The negotiation of BRTAs also entails a number of discrete costs — for example, those associated with the travel and staff time entailed in sending Australian delegations abroad for particular rounds of negotiations — that should be readily amenable to quantification.

While the available information indicates that the Australian Government's total expenditure on BRTAs is not insignificant, DFAT's response leaves the Commission unable to provide a comprehensive estimate of the cost incurred by the Australian Government in negotiating BRTAs (or, indeed, its participation in APEC or the Doha Round under the WTO).

In regards to future policy settings, in the Commission's view there would be benefits to public policy in DFAT compiling estimates of the costs of negotiating different trade agreements, and making them public.

² The New Zealand Ministry of Foreign Affairs and Trade has published indicative figures of the costs it incurred in negotiating an agreement with China. It estimated that the costs were in the order of \$760,000 for travel, accommodation and other direct costs in 2007/08, the final year of the negotiations when there was less travel than in the previous two years. (MFAT 2009, p. 47) The Department went on to conclude that this resulted in an estimated annual cost of approximately NZ\$1 million for the China negotiations, which ran from late 2004 to late 2007.

³ House of Representatives Questions in Writing, Office of Trade Negotiations: Staffing, Question 2151, 31 October 2005.

Box 7.2 DFAT response to request for negotiation cost estimates

In response to the Commission's request for estimates of its negotiation costs, DFAT stated:

As part of its study into bilateral and regional free trade agreements the Productivity Commission requested that the Department of Foreign Affairs and Trade (DFAT) provide the following estimated costs:

- the cost to DFAT for the single financial year, 2008–09, associated with the negotiation of all (then current and prospective) bilateral and regional trade agreements;
- the total cost to DFAT associated with the negotiation of Australia's FTAs with the United States, Thailand and ASEAN (and New Zealand), and the costs to DFAT to date associated with the negotiation of Australia's FTA with China; and
- the costs to DFAT to date from participation in Doha Round negotiations.

Further, the Productivity Commission asked for an explanation that could be used in its report if DFAT was unable to provide the requested information.

DFAT is not in a position to provide estimations of these costs as trade work is completely integrated into the work of the department and cannot be separately identified and costed.

Trade work is integral to the Department's efforts to advance the interests of Australia and Australians internationally. Trade is mainstreamed and fully integrated across the Department's operations. Most DFAT work units in Canberra and almost all overseas posts and State Office staff, pursue an integrated foreign and trade policy agenda for the government.

Given this policy integration DFAT is unable to provide accurate estimates on the number of staff and their related costs (salaries, equipment, travel, etc) who work on trade policy, let alone the more specific break-down requested by the Productivity Commission.

We appreciate that some other departments and portfolio agencies may be able to provide their estimated costs data to the Commission due to the readily identifiable number of staff from those departments and agencies working on trade issues. Unlike DFAT, these staff work on trade issues as they intersect with their respective policy responsibilities. This is not the case with DFAT, where trade is core work for the Department.

DFAT was resourced for trade policy priorities within its baseline funding. It has received virtually no additional supplementation for trade initiatives. The Department's trade priorities within its budget from year to year reflect priorities as determined by Ministers. We do not consider these decisions relevant to the terms of reference set for this study.

Should the Productivity Commission wish it may use the above information provided by DFAT in its report.

Source: DFAT (pers. comm., 17 June 2010).

While allocating the cost of resources that may be jointly employed in multiple functions may not be straightforward, as noted, it is common practice for Australian Government agencies to make such allocations in preparing estimates or reports, caveated as appropriate, of particular expenditures.

In its response to the draft report, DFAT noted that it currently provides information in its annual reports, including:

... against the output of ‘protection and advocacy of Australia’s international interests through the provision of policy advice to ministers and overseas diplomatic activity.’ Work to advance Australia’s interests through bilateral, regional and multilateral trade negotiations is a major and integral part of that policy output. (sub. DR98, p. 19)

However, this output covers a very broad range of activities with a total expenditure in 2008–09 of more than \$350 million (DFAT 2009a, p. 262). While the Commission recognises the importance of aggregate reporting, it also considers that DFAT should supplement these data, as required, with estimates of the costs it incurs in relation to various trade negotiation activities.

FINDING 7.2

Although a major departmental activity, no useful information is publicly available regarding the staffing and other costs incurred by the Department of Foreign Affairs and Trade in pursuing BRTAs.

RECOMMENDATION 7

To enhance transparency and public accountability and enable better decision making regarding the negotiation of trade agreements, the Department of Foreign Affairs and Trade should publish estimates of the expenditure incurred in negotiating bilateral and regional trade agreements and multilateral trade agreements. These should include estimates for the costs of negotiating recent agreements.

Implementation, administration and compliance activities

Once an agreement has been concluded and signed by both countries, after a period of time, the agreement is said to ‘enter into force’. A number of activities, both of a one-off and ongoing nature, are associated with a new agreement becoming active.

Implementation and administration

In the first instance, legislative changes may be required to enact certain provisions of an agreement — for example, the changes to Australia’s intellectual property laws as a result of AUSFTA. Such legislative changes entail the costs of drafting legislation as well as the costs of the associated parliamentary processes.

Additionally, BRTAs that include preferential tariffs result in work for the Australian Customs and Border Protection Service (ACBPS, hereafter Customs). Customs advised the Commission that such changes relate to regulations concerning RoOs, as well as new or amended customs duty rates. Amendments may also be required to facilitate changes to customs procedures. In addition, Customs has an educative

role, and delivers information sessions for stakeholders and customised online information for each agreement. Implementation costs can stretch over a number of years, particularly where tariff changes are phased in over an extended period.

Customs provided the Commission with estimates of its implementation costs for a number of Australia's current BRTAs. Over a four-year period, implementation costs for the AUSFTA have been approximately \$970 000 (or \$242 500 per year), while the costs for implementing AANZFTA over a one-year period were approximately \$180 000.

The agency also has a small though ongoing role in advising government departments on the customs aspects of BRTAs, as well as importers and exporters on tariff classifications, origin and valuations under various BRTAs. In 2008–09, Customs spent approximately \$35 000 on all BRTA administration activities.

Compliance activities

Customs also has a role in ensuring that those importers claiming a tariff preference (including under a BRTA) are entitled to do so. It conducts Pre-Clearance Intervention inspections to ensure that any claimed preferences are valid and substantiated by the required paperwork, including verification of the country of origin. Post-Transaction Verification operates on a risk-based assessment of importers, and involves audits to ensure that where preferences have been claimed, they are valid.

In 2008–09, Customs incurred costs of approximately \$1 million in compliance-related activities across all of Australia's BRTAs.

Changes to government procurement procedures

Australia's preferential trade agreements have impacted on the policies and practices of government procurement in Australia. Early trade agreements with New Zealand and Singapore had minimal impact on Australian Government procurement as they substantially focused on non-discrimination with minimal restrictions on the conduct of procurement. By comparison, the AUSFTA introduced new procedural rules and requirements that aim to safeguard non-discrimination and transparency. Generally, these new obligations have been implemented at the Australian Government level through the incorporation of Mandatory Procurement Procedures (MPPs) within the Commonwealth Procurement Guidelines. Consistent with the AUSFTA, the MPPs now contain provisions that:

-
- create a strong presumption that open tenders will be used for most types of procurement valued above specified thresholds. Currently, these thresholds are \$9 million for construction services and \$80 000 for general goods and services in the case of agencies covered by the *Financial Management and Accountability Act 1997* (FMA). Relevant bodies covered by the *Commonwealth Authorities and Companies Act 1997* have a higher threshold for general goods and services of \$400 000;⁴
 - specify minimum time limits for suppliers to submit tenders (with a general minimum standard of 25 days, reducible to 10 days in specific circumstances);
 - limit use of procurement as a policy tool for achieving non-procurement objectives through limiting rules for requirements that may be placed on suppliers for participation and a general ban on use of offsets;
 - require technical specifications to be expressed in performance or functional terms and based on international standards where appropriate;
 - require additional reporting for contract award notices; and
 - require a common deadline for all suppliers (no late tenders).

Following the negotiation of the AUSFTA, new Commonwealth Procurement Guidelines (CPGs) were introduced, and while ‘guidelines’ suggest flexibility, in fact many of them are mandatory. As the Department of Finance and Deregulation (then the Department of Finance and Administration) notes:

The *Commonwealth Procurement Guidelines* (CPGs) incorporate all relevant international obligations into the procurement policy framework. Complying with the CPGs will ensure agencies meet all obligations under any free trade agreements to date. These obligations must be complied with in order to approve proposed procurement under FMA regulation. (DoFA 2006)

The revised procurement arrangements are generally seen as improving transparency and contestability. One by-product of the improved reporting and transparency arrangements is that the share of government contracts going to small and medium sized enterprises has increased in recent years.

At the same time, implementation of the AUSFTA increased the administrative costs and complexity of tenders (departments and agencies were provided ongoing supplementation amounting to approximately \$85 million over five years) and reduced flexibility for agencies in conducting procurement. The Commission expects that compliance costs for businesses have also increased. The Government

⁴ These amounts represent a rounding down of the actual thresholds that apply in the AUSFTA which are subject to biennial adjustment. By rounding down the thresholds, the Commonwealth has avoided a need to adjust domestic policy on each review of the AUSFTA thresholds.

publicly anticipated at the time that Australia would benefit from the procurement changes because of the improved market access in the United States procurement market and accepted these costs as part of achieving an agreement (Vaile 2004). To date, the Commission has received little information on the extent of benefits from Australian businesses accessing the United States procurement market.

One area of concern raised by some interests is the \$80 000 threshold at which Australian Government procurement of goods and services are subject to the requirements of the AUSFTA. While agencies vary in how well they have streamlined open tender processes, there are some concerns that the low threshold requires a disproportionate cost for purchases of relatively low value. On the other hand, the low threshold may be a contributor to the greater apparent success of SMEs in Commonwealth procurement and it provides access for Australian exporters to sections of United States government procurement market where individual procurement transactions tend to be of low value.

The Commission has been advised that the net benefit of the \$80 000 threshold is being investigated by DFAT. The renegotiation of provisions takes time, and would place Australia back into a ‘give and take’ setting.

Changes in tariff revenue

In addition to the cost of negotiating and implementing BRTAs, the granting of tariff concessions reduces the amount of tariff revenue collected by the Australian government. The Australian Treasury estimates the foregone tariff revenue cost from each proposed BRTA, based on the existing level and pattern of trade between Australia and the proposed partner country — that is, it does not account for any shifts in import sources away from non-members in favours of partners to the agreement. DFAT publishes the estimated revenue cost as part of its National Interest Analysis, which is tabled in the Australian Parliament after an agreement is signed, but prior to it entering into force. The resultant estimates (table 7.1) are generally small relative to the total government revenue obtained from the customs duty levied on imports, which was \$6.3 billion in 2008–09 (ACBPS 2009, p. 150). Of course, to the extent that lower tariffs are passed on to Australians in the form of lower prices, then reductions in tariff revenue represent a transfer to consumers rather than a net cost.

Table 7.1 Estimated tariff revenue changes

	SAFTA	AUSFTA	TAFTA	ACI-FTA	AANZFTA
Forward estimate period	2003–07	2004–08	2004–08	2008–12	2009–13
Estimated tariff revenue reduction (\$m)	130	1 460	335	13.9– 15.4	971

Source: DFAT (2003; 2004a; 2004b; 2008a; 2009b).

7.3 Summing up

Most business groups the Commission has heard from in this study made ‘in-principle’ comments on Australia’s policy of pursuing BRTAs. The Commission has also received evidence from a comparatively small number of businesses that have benefited from BRTAs, but the impacts are not uniform across sectors.

Where the Commission has received information about the effects on a business, manufacturing and agricultural industries appear to have benefited the most, consistent with the findings in chapter 6 that where Australia’s BRTAs have reduced barriers, it has related to the traditional merchandise trade sectors of manufacturing and agriculture.

Limited information has been received to suggest that businesses within service industries, which comprise the much larger component of Australia’s economy, have benefited to date from Australia’s agreements. In fact, as suggested by the ASR, the benefits for service industries might come predominantly through future negotiations in working groups and other forums. And for those businesses who do make use of these agreements, they do so with some compliance costs.

Further, the evidence available to the Commission about the cost to Australian Government departments of negotiating and implementing BRTAs, although incomplete, suggests that such costs are material. Ideally, in the future, the costs of negotiating agreements incurred by DFAT should be transparent to the government and the public.