

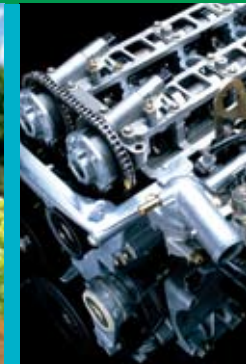


Australian Government

Department of Foreign Affairs and Trade

TradeStatement 2007

A STATEMENT BY
WARREN TRUSS, MINISTER FOR TRADE





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Minister's Foreword



I am pleased to present the Australian Government's 11th Annual Trade Statement — my first as Minister for Trade. Trade continues to open up new opportunities for Australia — opportunities which are creating jobs, improving living standards and helping to ensure our future as a prosperous nation.

2006 was a successful year for Australia's trade, with exports of goods and services rising by 16 per cent to \$210 billion. Exports are set to grow further in 2007.

While our resources exports grew particularly strongly in 2006, manufactures, services and rural exports also registered significant gains. These gains are, in turn, generating jobs in Australia — helping to reduce our unemployment rate to the lowest level in more than 30 years.

The Government's trade policy agenda is highly active and ambitious. Our top trade priority continues to be a successful outcome from the Doha Round of multilateral trade negotiations. Australia has been one of the most active countries in reviving negotiations following last year's suspension. We are recognised as an influential and considered voice by other participants, particularly through our leadership of the Cairns Group and our effective role in other forums.

In September this year, Australia will host the annual meeting of APEC Leaders. This and other APEC meetings are expected to bring around 15,000 people to Australia during the year, showcasing our economy and society to countries which account for nearly 70 per cent of Australia's total trade.

As host, Australia aims to shape outcomes on issues critical to our trade and economic interests and to the region's prosperity and security more broadly. These issues include progressing the Doha Round negotiations, advancing regional economic integration, clean development and climate change, counter-terrorism and health pandemics.

We are continuing to pursue high-quality, free trade agreements (FTAs) which offer the prospect of worthwhile gains for Australia — beyond and faster than could be achieved through the World Trade Organization. In April 2007, Australia commenced negotiations with Japan, adding to the negotiations under way with China, ASEAN (jointly with New Zealand) and Malaysia.

Japan has been our largest export market for the past 40 years. A free trade agreement with Japan would be a major step forward in an economic relationship which has helped underpin both countries' prosperity since the signing of the Australia-Japan Agreement on Commerce 50 years ago.

FTA negotiations are also set to commence with the Gulf Cooperation Council and preparatory talks are underway with Chile. We are also conducting joint studies with the Republic of Korea and Mexico.

The Australian Government's broader economic reforms are contributing to our export success. Key reforms to export infrastructure, particularly in land transport and ports, are lifting Australia's capacity to efficiently deliver more exports to market. Greater competition and a more open, flexible economy are giving companies access to cheaper inputs and encouraging them to respond quickly and positively to new opportunities.

Helping exporters to take advantage of new market access opportunities, including from our FTAs, is a key focus for the Australian Government. We recently announced continued funding for a network of US trade facilitators and, through Austrade, we have significantly extended reach into the growth markets of China and India. I recently opened a new Austrade managed Consulate-General in Chennai and launched a new marketing campaign in India.

The Government is helping Australian businesses, especially small and medium-sized enterprises (SMEs), which make up over 80 per cent of our exporters, to achieve export success. The Australian Government's lead export agency, Austrade is delivering services and assistance to more than 1,000 clients each month. The Export Finance and Insurance Corporation, which provides specialised, financial solutions to Australian exporters and investors, especially in difficult markets, is developing new ways to help SMEs export. The Government has also announced the establishment of Australian Industry Productivity Centres and the Global Opportunities Programme to help SMEs become more competitive in global markets and to integrate into global supply chains.

The following pages describe how these measures, along with our trade agenda, are encouraging more Australian businesses to take up the opportunities and seek the rewards of competing in the global market.

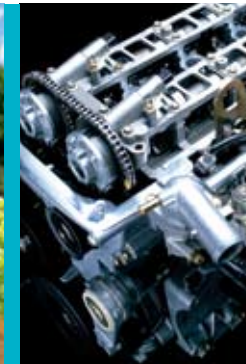
I am confident that, through the Australian Government's trade agenda – the most ambitious in Australia's history – we can continue to build Australia's prosperity into the future.



Warren Truss

1

Australia's Changing Trade Environment



Australia's Changing Trade Environment

The 2007 Trade Statement is being delivered against the background of a strong trade performance, but also of a complex and challenging trade environment.

Australia's exports reached record levels in 2006. Under the impact of increasing global demand for mineral and energy resources, the terms of trade — the ratio of our export prices to import prices — reached its highest level since the 1950–51 Korean War wool boom. While resources exports grew the most strongly, manufactures, services and rural exports also registered solid performances.

These outcomes were driven largely by a world economy growing at more than 5 per cent, along with continuing and rapid industrialisation in Asia. Asian industrialisation has gathered momentum in recent years with the rapid growth of the Chinese and Indian economies. Over the past 10 years, the combined share of China and India in global trade in goods and services has more than doubled. China's growth, in particular, has led to a surge in demand for mineral commodities, which has helped to underpin strong global prices for resources, as well as economic growth elsewhere.

Australia's Terms of Trade

Goods and services

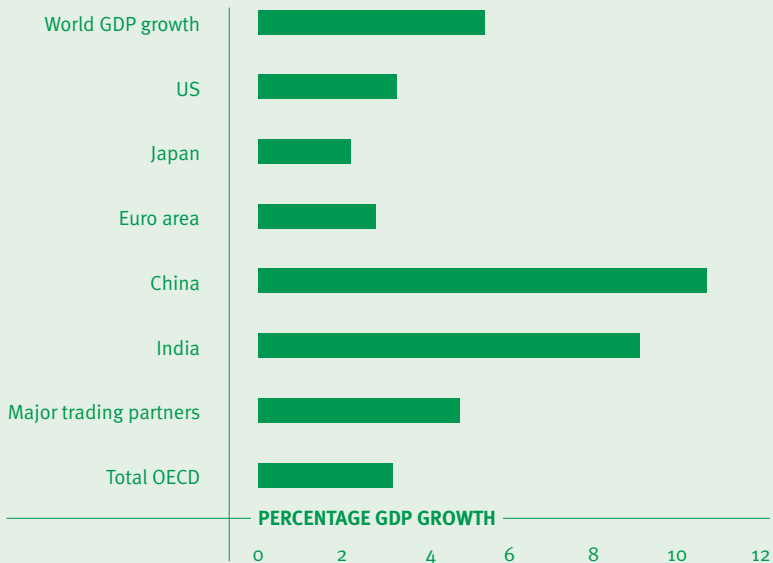


Source: ABS Catalogue 5302.0; quarterly data, seasonally adjusted

World Growth 2006

The world economy grew by 5.4 per cent in 2006 after growing 4.9 per cent in 2005, with growth becoming more balanced across regions. The United States experienced a slowdown in the second half of the year, reflecting a weaker housing market and the lagged effects of interest rate rises. The Euro area experienced its highest rate of expansion since 2000, while Japan's recovery consolidated. China recorded its fourth straight year of double digit growth, driven by investment and supported by strong consumption and net exports. The Indian economy grew strongly, supported by strong domestic demand. Growth in Australia's other major trading partners remained robust.

GDP Growth Rates 2006



Sources: IMF, OECD, 2007–08 Commonwealth Budget. World, OECD and Euro area growth rates are calculated using GDP weights based on purchasing power parity. Calculations for major trading partners use export trade weights.



In our quickly changing world, maintaining and building Australia's success as a trading nation — and through this our ability to expand employment and maintain a high standard of living — depends on promoting and sustaining the competitiveness of Australian industries. The Government has in place the sound macro-economic settings and the domestic reform agenda needed for growth. Its active trade diplomacy is building export markets by enhancing market access — multilaterally, in the Asia-Pacific region and in our bilateral relations with key economies.

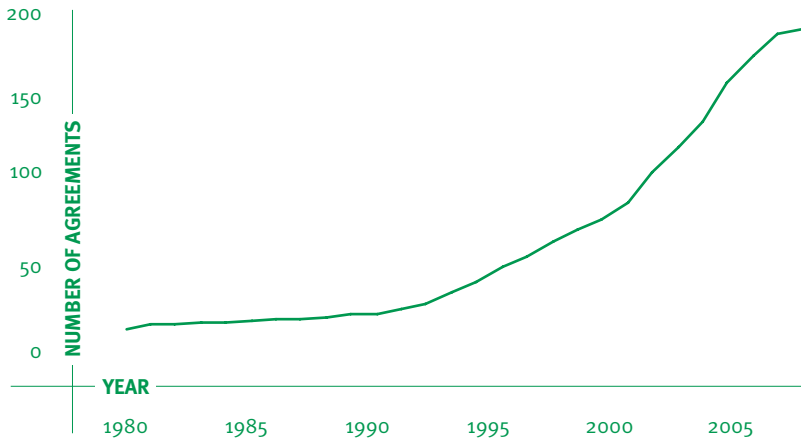
Our top trade policy priority remains the Doha negotiations, which are being conducted under the auspices of the World Trade Organization (WTO). With its global framework of agreed trade rules, the WTO remains crucial in preserving the openness of

markets around the world and for delivering further trade liberalisation. Our aim in the Doha negotiations is to achieve significant improvements in access to foreign markets for Australian industries. Negotiations resumed in February 2007 after being suspended in July 2006, but a breakthrough has continued to be elusive despite intense efforts by Australia and other WTO members.

APEC economies account for 69 per cent of Australia's trade, and APEC remains the principal forum for advancing Australia's engagement with the Asia-Pacific region. As APEC host in 2007, Australia has an important role to play in shaping outcomes from the September meeting of the 21 APEC Leaders. This meeting is an opportunity to strengthen APEC's agenda of advancing regional economic integration.

In recent years free trade agreements have been spreading rapidly, both globally and in our own region. The WTO Director-General forecast in January that the number of active preferential agreements could reach around 400 by 2010. This is a development which Australia can ignore only at substantial cost to our trade interests. Our approach is to work actively for free trade agreements that will help to maintain and enhance Australia's access to key markets. At the same time, we are seeking high-quality agreements that can also be expected to pave the way for broader trade liberalisation in the future.

Regional Trade Agreements in Force



Source: World Trade Organization. Note that the expression 'regional trade agreement' is often used interchangeably with 'free trade agreement', especially when several parties are involved.

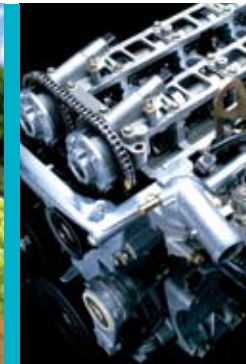
Developments over the past 12 months have underlined the need for continuing efforts to create a domestic economic environment that supports export competitiveness. In particular, the strengthening of the Australian dollar and increasing competition from goods and services suppliers in China, India and elsewhere have put pressure on Australian producers and exporters.

In May 2007, the Government announced a major Industry Statement containing a number of programs that aim to help Australian companies enhance their productivity and access to global supply chains. This will supplement and build on the assistance provided to Australian exporters through Austrade services and initiatives, and facilities provided by the Export Finance and Insurance Corporation.

Ultimately, Australia's trade performance will be determined by the more than 42,000 Australian exporters, the growing number of new exporters, and the business networks that support them. Their skills, efforts and innovation — only partly captured in the following pages — are crucial to Australia's export growth.

2

Australia — A Trading Nation



Australia — A Trading Nation

Trade — For All Australians

We all gain from trade, every day. Through trade, Australia's abundant resources and skills are building wealth at home and abroad, and ensuring businesses and consumers have more affordable access to the best the world has to offer.

Trade and foreign investment deliver jobs. One in five Australian jobs depends on exports; one in four jobs in regional Australia depends on exports. Imports generate jobs too, as they go from port to shop, and provide inputs to Australian manufacturing. One job in five in manufacturing is in firms with majority foreign ownership and one in four jobs in the mining industry is in enterprises that are substantially foreign owned.

Myth: Cheap imports reduce job opportunities.

Fact: Lower tariffs have not resulted in higher unemployment. Since the 1980s, Australia's average tariff rate has fallen from over 15 per cent to 3.5 per cent, and yet our unemployment rate is at its lowest level in 30 years.

Trade benefits all consumers. If Australia had not opened its markets to foreign goods and services, consumer choice and spending power would be much reduced. Clothes and shoes would cost around 18 per cent more if the tariffs of the late 1980s still applied.

Trade brings out the best in business. The global marketplace is highly competitive. It also abounds with opportunities. By participating, Australia's businesses are more likely to be innovative, to enhance their productivity and to integrate into global supply chains.

Trade brings down costs for business. The competition imports foster means businesses have the high-quality supplies they need at prices that keep them competitive at home and overseas. By exporting, businesses can also achieve cost savings through higher production volumes for export to world markets many times larger than Australia's.

Myth: Lower tariffs let imports flood our market, pushing out local manufacturers.

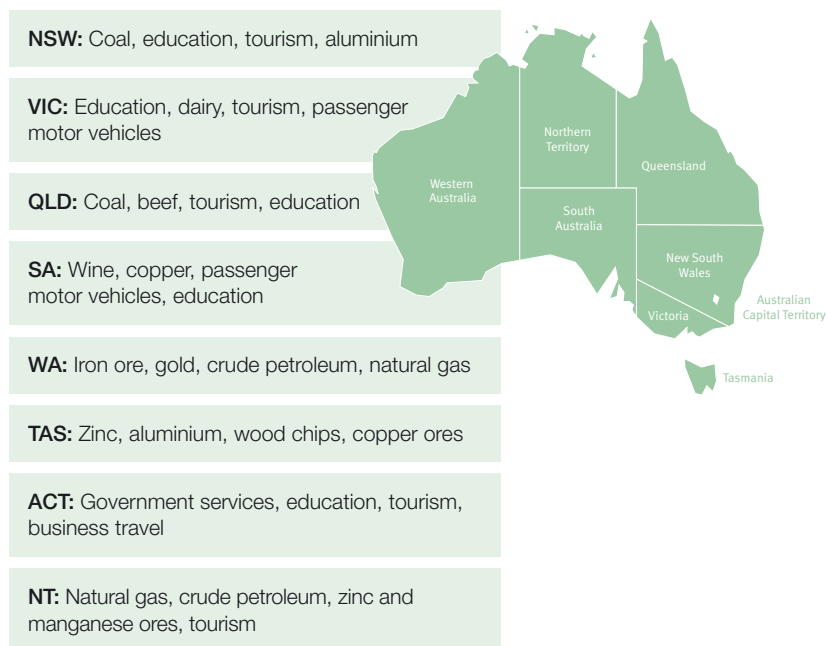
Fact: Over the past 25 years, Australia's manufacturing output has risen by around 40 per cent and the volume of manufacturing exports has risen fivefold.

An open, dynamic economy is the key to delivering the benefits of trade to all Australians. We can't be the best at everything. By opening up to competition from abroad, we can become even better at what we do well. We can export more and in return choose from the things other countries do well.

Trade matters, more than ever. Exports amount to around 20 per cent of our GDP compared with around 15 per cent in the 1980s. Many manufacturing and services industries that were once focused predominantly on the local market are now trading vigorously in world markets, along with our resources and rural exporters. Tourism, education, medicines and cars are now key exports. In 2006, around 40 per cent of Australian-made passenger motor vehicles were exported, compared with less than 5 per cent in the late 1980s. International education supports over 50,000 jobs.

Trade matters — all over Australia. Australian businesses in all sectors all over Australia benefit from trade, reflecting Australia's diversity in resources and skills. All states and territories contribute importantly to exports, with each having a distinctive export profile. The four most prominent exports from each state and territory are shown on the map below.

Top Four Exports by State and Territory 2006



Realising the Gains

Australians are reaping the rewards of two decades of wide-ranging structural reforms that have improved the functioning and flexibility of our goods, services, labour and capital markets and delivered 15 years of uninterrupted economic growth. Around two million jobs have been created since 1996 and the unemployment rate is at its lowest level in over 30 years.

The reforms, along with sound macroeconomic management, have resulted in real GDP per capita of Australians growing by around 2.5 per cent per annum for the past 15 years. This is well above the average for the OECD as a whole which grew less than 2 per cent. Reforms have also made the Australian economy more resilient to external shocks, as was demonstrated by continuing growth through the Asian financial crisis of the late 1990s, the slowing down of the global economy in 2001 and 2002, and the recent drought.

Promoting and Growing Exports

Building a more productive economy gives Australia greater export capability. The Government supports Australian businesses to help them realise their export potential, principally through Austrade.

In 2005–06, Austrade's global network provided assistance to around 5,100 Australian businesses, which secured around \$18.4 billion in international sales.

Over the past five years, the Export Finance and Insurance Corporation has supported \$4.4 billion of Australian exports and investments. On 2 May 2007 the Government announced the broadening of EFIC's mandate to help small and medium-sized enterprise exporters expand globally.

The annual Australian Export Awards recognise the significant export achievements of Australian businesses. The Awards bring together Commonwealth, state and territory governments and the business community. The Awards are co-presented by Austrade and the Australian Chamber of Commerce and Industry.

ResMed won the DHL Australian Exporter of the Year award for 2006 from a record 489 entries. ResMed is a leading developer, manufacturer and marketer of products for the screening, treatment and long-term management of sleep-disordered breathing and other respiratory disorders. ResMed recorded revenues of US\$607 million in 2006, by exporting to countries such as the Republic of Korea, Sweden, Japan, India, Spain, China, the United States and Malaysia.



Minister Truss along with the Hon Alan Cadman MP and Peter Yuile Deputy CEO of Austrade touring the ResMed facility as part of the launch of the 2007 Australian Export Awards. The launch was held at ResMed's headquarters in Western Sydney. Minister Truss was shown around by Rob Douglas, Chief Operating Officer (Australia) and Paul Farrell, Vice President (Australia and New Zealand). Winners of the 2007 Awards will be announced in November in Brisbane.

APEC 2007: Australia as Host

A key focus of the Government's international engagement is to improve conditions for Australian traders and investors.

This year, the Australian Government is hosting the largest and most significant meeting of world leaders ever held in Australia — APEC 2007. The 21 APEC Member Economies account for 44 per cent of world trade, more than half of global GDP, and 69 per cent of Australia's total trade.

The agenda involves issues central to our trade interests such as progress in the Doha Round of multilateral negotiations, advancing regional economic integration, trade facilitation measures to cut business costs and economic structural reform. More broadly, APEC Leaders will also address clean development and climate change, pandemics and counter-terrorism issues. As host, we have a significant opportunity to influence APEC's medium-term direction.

The Government's Ambitious Agenda — Breaking Down Barriers to Trade

The successful conclusion of the Doha Round of multilateral negotiations continues to offer the best path to removal of the significant distortions that remain in the global trading system.

The stakes in the Doha Round are high and the potential gains for Australia are wide-ranging and substantial. According to a World Bank study, full merchandise trade liberalisation could increase global income levels by US\$287 billion in 2015.

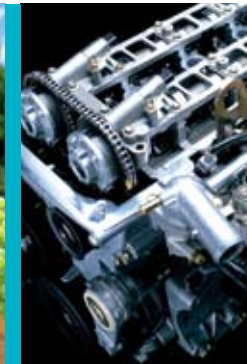
The Government is also pursuing free trade agreements that will improve Australia's access to the markets of key and emerging trading partners, and build closer economic and strategic ties with those countries.

We have secured comprehensive FTAs with four of our ten largest trading partners — the United States, Singapore, New Zealand and Thailand. Negotiations are well under way with China, ASEAN (jointly with New Zealand) and Malaysia. We are pursuing FTAs with Japan and the Gulf Cooperation Council and have begun discussions about a possible FTA with Chile. We are also conducting joint studies with the Republic of Korea and Mexico.

Together, our FTA partners, current and prospective, account for more than 60 per cent of Australia's total two-way trade in goods and services.

3

Australia's Trade Performance



Australia's Trade Performance

- Record export values were achieved by 19 of our top 25 exports in 2006.
- Resources exports grew rapidly due to higher prices and growing demand, particularly from North Asia.
- Manufactures exports grew strongly reflecting rising processed metals exports.
- Services exports growth was robust, with exports of education and professional and business services growing strongly.
- Rural exports rose despite the drought, due to strong beef exports and the carry-over of stocks from the 2005–06 wheat crop.
- Australia's trade deficit narrowed, although imports grew strongly due to higher oil prices and rising domestic demand.
- The outlook for Australia's exports is positive. Substantial investment in new export capacity is coming on stream and the world economy is expected to continue to grow solidly in 2007 and 2008.

Trade Overview

Exports of goods and services rose 16 per cent in 2006 to reach their highest value on record at \$210 billion. This was the strongest growth in export values since the year 2000, when tourism exports boomed with the Sydney Olympics. Record export values were achieved by 19 of our top 25 goods and services exports. Exports benefited from strong growth in major trading partners. Strong demand resulted in higher minerals and energy prices, particularly for iron ore, nickel and gold.

Export volumes increased by 3 per cent in 2006. Services and rural exports showed the most significant increases in volume terms, while manufactures and resources delivered lower but positive volumes growth.

Australia's Top 25 Exports^(a)

Rank		2005	2006	2005 to 2006 % Growth
1	Coal	21,825	23,272	6.6
2	Iron ore	11,071	14,381	29.9
3	Personal travel (excluding education) ^(b)	10,927	11,037	1.0
4	Education services ^(c)	9,587	10,737	12.0
5	Gold	6,805	10,567	55.3
6	Crude petroleum	6,281	6,677	6.3
7	Aluminium ores (including alumina)	4,684	6,071	29.6
8	Aluminium	4,460	5,934	33.0
9	Natural gas	3,694	5,119	38.6
10	Beef	4,670	4,856	4.0
11	Professional and business services	3,827	4,518	18.1
12	Copper ores	2,556	4,133	61.7
13	Passenger transportation services	4,157	4,096	-1.5
14	Other ores	2,337	3,828	63.8
15	Other transportation services ^(d)	3,305	3,704	12.1
16	Wheat	2,984	3,362	12.7
17	Refined petroleum	2,756	3,120	13.2
18	Medicines ^(e)	2,921	3,080	5.4
19	Copper	1,903	3,053	60.4
20	Passenger motor vehicles	3,147	2,876	-8.6
21	Alcoholic beverages (mainly wine)	2,853	2,855	0.1
22	Wool	2,320	2,367	2.0
23	Business travel	1,894	2,275	20.1
24	Meat (excluding beef)	2,062	2,114	2.5
25	Zinc	800	1,424	78.0

(a) Goods trade is on a recorded trade basis, except for gold which is on a balance of payments basis. Services trade is on a balance of payments basis.

(b) Includes mainly recreational travel (tourism).

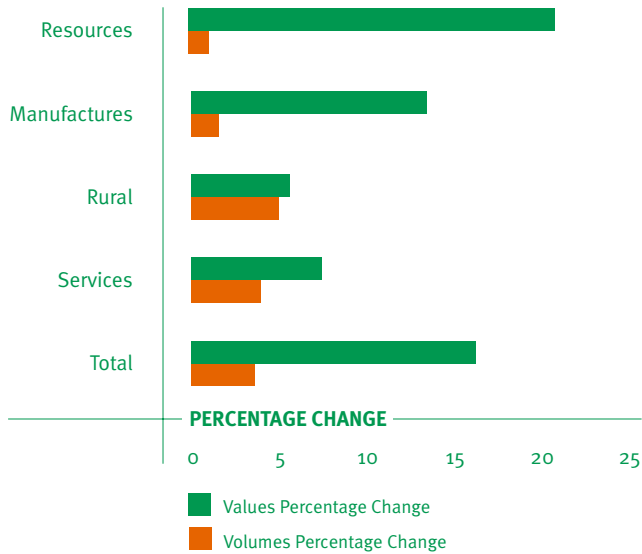
(c) Includes education-related travel and other education services.

(d) Other transportation services exports cover services provided in Australian airports and ports, including cargo and baggage handling services, agents' fees associated with passenger and freight transportation and airport and port charges.

(e) Includes veterinary medicines.

Source: DFAT STARS Database and ABS Catalogue 5368.0

Change in the Value and Volume of Australian Exports 2006



Source: ABS Catalogue 5302.0

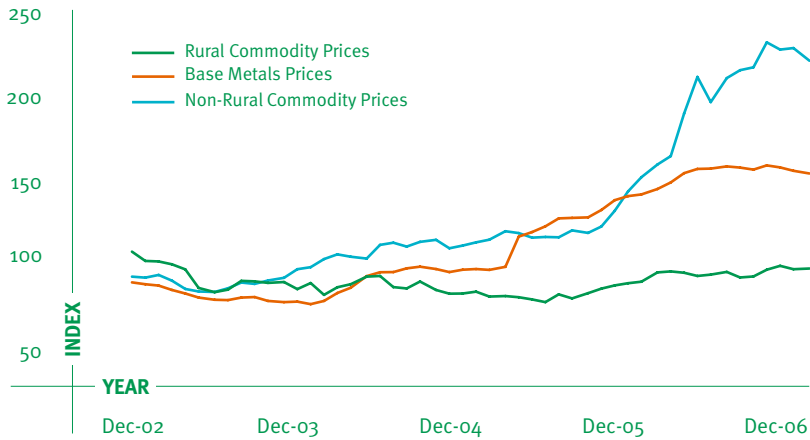
Commodity Prices and the Terms of Trade

Prices for Australian commodity exports rose 24 per cent in 2006 in Australian dollar terms. Non-rural commodity prices (for minerals, energy and metals exports) reached historic highs, driven by rapidly growing demand from China. Non-rural prices rose 27 per cent in 2006, following growth of 31 per cent in 2005.

Prices for base metals rose 63 per cent in 2006, driven by large rises in iron ore, copper, aluminium and nickel prices. In the energy sector, thermal coal prices were 3 per cent higher, following strong growth in 2005. Oil prices rose 18 per cent in 2006 in Australian dollar terms.

Rural commodity prices rose 14 per cent in 2006, but remained 14 per cent below the peak of October 2002. This reflects, in part, the appreciation of the Australian dollar over recent years. The Australian dollar averaged 75.3 US cents and 63.0 against the Trade Weighted Index (TWI) in 2006, compared with average levels for the past 10 years of 65.7 US cents and 57.3 against the TWI.

Australian Dollar Commodity Prices



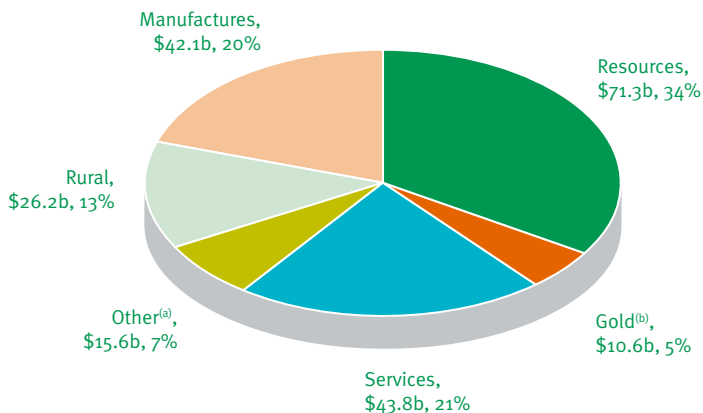
Source: RBA Bulletin Database. The commodity price indices are monthly averages of export prices for major Australian commodities, weighted according to export values.

The terms of trade — the ratio of export prices to import prices — reflects the capacity of exports to pay for imports. A rise in the terms of trade enables Australia to buy more imports for a given quantity of exports and thereby increases domestic real income. In 2006, Australia's terms of trade index reached its highest level since the 1950–51 Korean War wool boom. Export prices rose 12 per cent following a similar increase in 2005. Import prices were 4 per cent higher, after growing just 0.75 per cent in 2005.

Composition of Exports

Resources accounted for just over a third of Australia's exports in 2006. Services was the second-largest export category, followed by manufactures and rural exports.

Composition of Australia's Exports 2006



(a) Other goods include the following ABS export items: *Other non-rural goods* (including alcoholic beverages and all ABS confidential trade items, such as unworked nickel and raw sugar); *Goods for repair and processing*; and *Goods procured in ports by carriers* (such as fuel and food).

(b) Gold is reported as a separate category, in line with international standards.

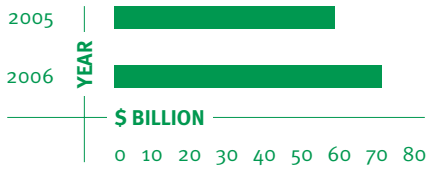
Source: ABS Catalogue 5368.0

Resources

The value of Australia's resources exports grew strongly in 2006, rising 21 per cent to \$71.3 billion. Coal maintained its position as Australia's largest export at \$23.3 billion (7 per cent higher than 2005). Australia's second-largest export, iron ore, recorded strong growth, rising 30 per cent to \$14.4 billion. Other resource exports that also rose included crude petroleum, aluminium ores, copper ores, and other ores.

Resources export volumes rose 1.4 per cent in 2006. Aluminium ores and iron ore increased in volume terms by 4.1 per cent and 3.8 per cent respectively. In the energy sector, Liquefied Natural Gas (LNG) export volumes grew by 21 per cent as the Darwin LNG plant commenced production. Coal export volumes grew by 1.5 per cent, with supply growth continuing to be affected by capacity constraints. Crude petroleum export volumes have declined since 2002 as oil fields have matured and new fields have come on stream at a slower rate.

Resources exports rose 21 per cent



Source: ABS Catalogue 5368.0

Mining investment increased by 46 per cent in 2005, and by a further 55 per cent in 2006 to reach \$21 billion. The expansion of production capacity is expected to see export volumes rise over the next few years.

Gold

The value of gold exports grew by 55 per cent to \$10.6 billion in 2006. Total Australian gold production was steady with growth in exports reflecting higher gold imports (gold is imported for refining and then re-exported). India and the United Kingdom, a significant gold trading centre, together received 71 per cent of Australia's gold exports in 2006.

Services

Global economic growth continued to have a positive effect on Australia's services exports in 2006. Services export values grew 8 per cent to \$43.8 billion and volumes increased by 4 per cent. In 2006, services industries accounted for 84 per cent of Australian jobs. Tourism is Australia's largest services export industry. The number of international short-term visitors to Australia reached a record high in 2006 of 5.5 million. Education services exports rose by 12 per cent. Professional and business services, now our eleventh-largest export, rose 18 per cent. Passenger services moderated slightly in 2006, while other transportation services (services provided in Australian ports and airports) grew by 12 per cent.

Services exports rose 8 per cent



Source: ABS Catalogue 5368.0

International Student Numbers at a Record High in 2006



Australian Education International's data on international students show that there were 383,818 enrolments of full-fee paying international students in Australia on student visas during 2006^(a). This was an 11 per cent increase in enrolments over 2005. Commencements for 2006 were 14 per cent higher than for 2005, indicating that enrolments for 2007 will also show strong growth.

Significant growth in enrolments for 2006 was recorded by India (42 per cent), Brazil (44 per cent), the Middle East (36 per cent) and Vietnam (28 per cent).

These markets also showed good growth in commencements — recording 57 per cent, 40 per cent, 44 per cent and 37 per cent increases respectively.

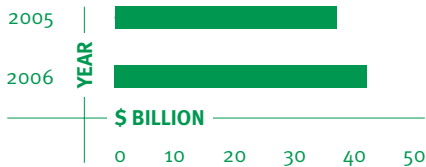
in commencements — recording 57 per cent, 40 per cent, 44 per cent and 37 per cent increases respectively.

(a) Students from New Zealand are not captured in AEI international student data as they do not require a student visa to study in Australia.

Manufactures

Exports of manufactures increased by 14 per cent to \$42.1 billion in 2006. In volume terms, manufactured exports rose 1.7 per cent. The main driver of manufactured exports growth in 2006 was strong demand from Asian countries for simply transformed manufactures (STMs), mainly metals. Australia's STM exports increased by 32 per cent to \$14.6 billion, while elaborately transformed manufactures (ETMs) exports grew by 5.2 per cent to \$27.4 billion.

Manufactures exports rose 14 per cent



Source: ABS Catalogue 5368.0



Exports of human vaccines grew by an impressive 44 per cent in the year 2006. Included in this success story is Australian publicly listed company, **CSL Limited**, which operates one of the world's largest influenza vaccine manufacturing facilities in Melbourne. CSL exports its flu vaccine to multiple markets in Europe, Asia and other countries in the Southern Hemisphere.

Australia's largest STM export, aluminium, increased by 33 per cent to \$5.9 billion in 2006. Niche ETM exports grew strongly, including professional, scientific and controlling instruments, which rose 12 per cent to \$1.8 billion. Medicines continued to be a strong export performer, increasing by 6 per cent to \$3 billion in 2006.

Rural

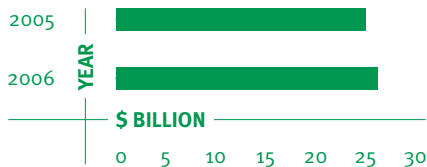
The value of Australia's rural exports rose 6 per cent to \$26.2 billion in 2006, with volumes up 5 per cent. This mainly reflected higher export prices and volumes for wheat and beef and was achieved notwithstanding a fall in cereal exports in the last quarter due to the drought.

Wheat exports rose 13 per cent in 2006, to \$3.4 billion due to higher world wheat prices and a carry-over of stocks from the 2005–06 crop.

Beef exports grew 4 per cent to \$4.9 billion in 2006, reflecting a range of factors including increased exports to the Republic of Korea, beef prices rising as a result of increased feed prices, and stock reduction due to the drought.

Wool exports rose 2 per cent in 2006, with volumes steady and prices slightly higher. Other rural exports exhibited moderate growth.

Rural exports rose 6 per cent



Source: ABS Catalogue 5368.0

Other Goods

Other goods exports, including wine, sugar and other confidential items, rose by 20 per cent to reach \$15.6 billion in 2006. Volumes rose by 6.1 per cent.

Wine exports were steady in 2006 at \$2.8 billion (although volumes grew by 9.5 per cent) after strong growth in recent years. Australia is the world's third-largest wine exporter. Australian wine accounts for around 18 per cent of US wine imports, and around a quarter of the United Kingdom wine market.

Sugar exports have benefited from higher prices in recent years, although prices have been moderating with increases in global production.

Labelling Agreement on Wine Increases Export Competitiveness

Australia worked with other new world wine producing nations to develop labelling arrangements that will help Australian wine producers become more competitive.

In January 2007, Minister Truss signed an Agreement on Requirements for Wine Labelling with signatories from governments of the World Wine Trade Group (Argentina, Canada, Chile, New Zealand and the United States).

Australian winemakers will no longer have to attach a different front label for each of these export destinations, which could save approximately \$25 million per year.

Direction of Exports

Japan has been Australia's largest export market since 1966–67. In 2006 it received a third more Australian exports than any other country.

In 2005 China overtook the United States to become Australia's second-largest export market, a position it maintained in 2006.

The United States was Australia's third-largest export market in 2006, and our largest services market. The Republic of Korea was Australia's fourth-largest export market.

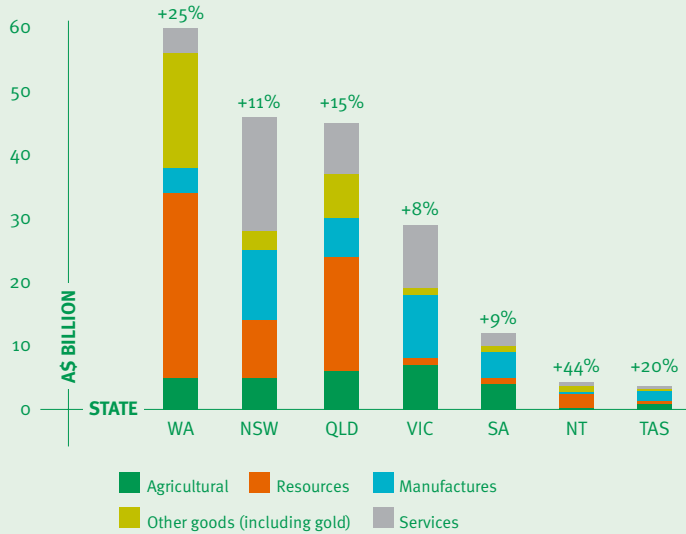
New Zealand was Australia's sixth-largest export market in 2006. India has risen in recent years to become our seventh-largest export market.

As a single market, the European Union was Australia's second-largest export market in 2006. The EU country of most significance to Australia's exporters was the United Kingdom, which independently ranked as Australia's fifth-largest export market. Northeast Asia as a whole (Japan, China, the Republic of Korea, Taiwan and Hong Kong) took approximately 40 per cent of Australia's exports in 2006.

Export Performance by State and Territory

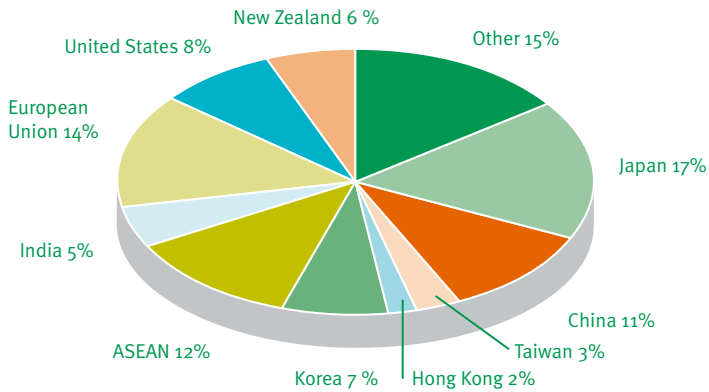
All states showed solid export growth in 2006. The strongest export growth was in states with the greatest exposure to the increasing global demand for mineral and energy resources.

Exports and Export Growth State and Territory 2006



Source: DFAT STARS, ABS Catalogue 5368.0. ACT exports of around \$930m in 2006 not represented.

Direction of Australia's Exports 2006



Source: DFAT STARS Database and ABS Catalogue 5368.0

Imports

Australia's imports increased by 12 per cent to reach \$221 billion in 2006, with high oil prices and rising petroleum imports playing a significant role. Crude petroleum imports rose 27 per cent to \$13.3 billion and refined petroleum imports rose 41 per cent to \$8.7 billion driving a 15 per cent rise in intermediate and other goods imports to \$77 billion. Consumption goods and services imports increased by 8 per cent and 7 per cent respectively. Capital goods imports grew strongly, by 9 per cent to \$40.4 billion, reflecting strong investment in the Australian economy.

Australia's largest source of imports in 2006 remained the United States, which accounted for almost 15 per cent or nearly \$32 billion of imports. China was our second-largest source of imports, and the largest source of imports of goods. Japan, Europe (particularly Germany and the United Kingdom) and the larger ASEAN economies were other major sources of imports.

Australia's Trade Deficit

Australia's trade deficit narrowed by \$5.1 billion to \$11.6 billion in 2006. The trade deficit was equivalent to 1.2 per cent of GDP, down from 1.8 per cent in 2005. While Australia's exports are diverse and growing, demand for imports remains robust, reflecting the continued strength in the Australian economy.

Outlook for 2007

Continued robust growth in the world economy is expected to support Australia's export growth in 2007. According to Treasury, world GDP is expected to increase by 5 per cent in 2007 and 2008, with China and India sustaining their strong economic growth. Growth in the United States is expected to ease in 2007, before strengthening in 2008. Steady growth in Japan and the European Union is expected to continue.

The first three months of 2007 have seen export growth continuing. In the March quarter of 2007, exports of goods and services were \$54.5 billion, 1.8 per cent higher than the December quarter 2006 and 9.6 per cent above exports in the March quarter 2006. Manufactures and services exports were 16 per cent and 11 per cent above their levels in the March quarter 2006 respectively, notwithstanding a higher Australian dollar. March quarter resources exports were up by 7.3 per cent, reflecting continuing strong global demand. Rural exports were 5 per cent lower in the March quarter 2007 compared with the March quarter 2006, reflecting the impact of the drought.

ABARE forecasts that mineral resource prices will continue to rise into 2007, although by less than in 2006. Minerals and energy resources export earnings are forecast to rise by 17 per cent to \$107.7 billion in 2006–07, and by a further 8.2 per cent to \$116.5 billion in 2007–08. Treasury and ABARE expect resources export volumes to grow strongly over the next few years as large-scale investments amounting to around \$55 billion, undertaken by the mining industry over the past five years, come on stream.

Export earnings for farm commodities are likely to fall in 2007, reflecting lower export volumes for crops as a result of drought. The fall in export returns is not expected to be as great as the fall in production, due to the cushioning effect of higher rural prices and the carry-over of stocks. While rural production for 2006–07 was lower, this has been partially offset by the high inventories of wheat crops carried over from 2005–06 (the second-highest harvest on record), which have been drawn on to meet export demand.

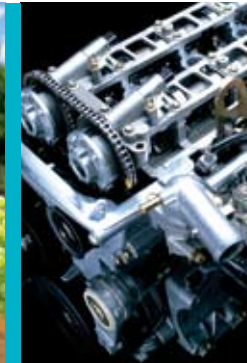
Australia's exports of elaborately transformed manufactures and services are expected to grow modestly in 2007. While these exports are benefiting from robust world economic growth in 2007, growth is being constrained by a high exchange rate and strong competitive pressures.

Services exports are expected to remain robust. The Tourism Forecasting Committee has forecast an increase of 5.4 per cent in the value that tourism adds to the Australian economy in 2007.

Solid growth in import volumes is expected to continue. This reflects ongoing growth in investment and increasing wealth within the Australian economy. Since 2001, capital imports have grown at an average rate of just under 20 per cent, boosting our productivity and competitiveness.

4

Developing Sustainable Competitive Advantages



Developing Sustainable Competitive Advantages

Australia's place in an increasingly competitive global trading environment depends heavily on the skills of our people and the physical infrastructure in place to support our industries. The Australian Government is committed to building on the advantages we already enjoy through the increasingly global focus of our businesses, a highly skilled workforce, an efficient and reliable transport infrastructure, growing business internet usage and an innovative research and development culture.

Global Integration

International trade in manufacturing and services is increasingly being undertaken within global supply chains, where different stages of the production process, such as research and development, production, logistics and marketing, are organised on a global basis.

Many Australian exporters will be able to achieve economies of scale by becoming suppliers in these chains. As part of its Industry Statement, the Government has announced a \$254 million Global Opportunities Programme that will give groups of Australian small and medium-sized enterprises the capability to identify global supply opportunities and bid for work in major international projects. The Department of Industry, Tourism and Resources, partnering with Austrade, and Invest Australia will deliver the program, which includes:

- support to groups bidding for work in global projects
- facilitation of trade missions
- the placement of experts in procurement offices for international projects
- support databases and directories of Australian capabilities and global opportunities
- working with multinational enterprises operating in Australia to encourage increased investment and closer links with Australian companies and research organisations.

The Government will also provide \$350 million over 10 years to establish Australian Productivity Centres. The Centres will target the services and manufacturing sectors, offering business improvement services and diagnostic tools to help firms benchmark their performance to international best practice.

A Highly Skilled Workforce

One of the biggest challenges that Australia faces in our increasingly competitive world is to lift the skills of its workforce. Nearly a third of Australians aged between 25 and 64 are without Year 12 or equivalent qualifications.

Focusing on the need for continuous upgrading of skills over the course of an individual's working life, the Australian Government announced the Skills for the Future initiatives in October 2006. These initiatives, worth \$837 million over five years, will deliver more opportunities for Australians to gain new skills and help develop a more entrepreneurial workforce.

The Government has made an unprecedented investment in the future of our universities by establishing the Higher Education Endowment Fund (HEEF) as a new, perpetual fund with an initial investment of \$5 billion to support capital works and research facilities. The HEEF will also encourage philanthropic investment in the higher education sector, with the Australian public able to make tax-deductible donations. This investment will promote excellence, quality and specialisation in Australian universities for years to come.

The National Reform Agenda

The Government is working with the states and territories to raise national productivity and boost industry competitiveness through the Council of Australian Governments' (COAG) National Reform Agenda. The National Reform Agenda has three streams — human capital, competition and regulatory reform.

- *Human Capital Reform* focuses on outcomes to enhance workforce participation and productivity, including health, education and training
- *Competition Reform* aims to produce improvements in transport, energy and infrastructure regulation and planning
- *Regulatory Reform* will ensure that the benefits from regulation imposed by the three levels of government are not offset by unduly high compliance and implementation costs.

Progress is well under way on the National Reform Agenda, including on initiatives to improve competitive markets in key infrastructure sectors such as ports, railways and other export-related infrastructure. In April 2007, COAG agreed on a timetable for implementing reforms to enhance regulatory outcomes for significant ports and rail networks, and to work towards improving competition and thus efficiency at major ports.

An Efficient and Reliable Transportation Network

A modern, efficient transport infrastructure is critical to Australia's trade performance. The Government has put in place measures to support Australia's export growth for years to come.

AusLink is Australia's first National Land Transport Plan. Under AusLink, the Government is spending \$15.8 billion over the five years to 2008–2009 and a further \$22.3 billion in the subsequent five years. The AusLink Network is based on national and inter-regional transport corridors, links to ports and airports, and rail, road and intermodal connections that together are of critical importance to national and regional economic growth development and connectivity.

Regional and rural industries will benefit from the Government's investment in fixing Australia's regional roads. Under the AusLink Roads to Recovery Programme the Government is providing \$1.8 billion over 2004–05 to 2008–09 to local councils to help them maintain and upgrade their road networks.



The Government is also providing \$470 million under the AusLink Strategic Regional Programme over 2004–05 to 2008–09 on specific projects that will boost local and regional economies.

In addition, local councils are receiving nearly \$2.6 billion over 2004–05 to 2008–09 in untied local road grants. South Australian councils are receiving a supplementary payment of \$53.7 million over that period to compensate them for their state's disadvantage under the local road funding formula.

Port efficiency and capacity are of particular importance to Australian exporters. International shipping remained overwhelmingly the main mode of transport of Australia's exports in 2006. All Australian ports are either corporatised under state government control or privately owned.

Hunter Valley coal is exported from the Port of Newcastle — the largest coal export port in the world. Shiploading capacity at the port's two coal terminals, both managed by Port Waratah Coal Services, reached 105 million tonnes a year in mid-2007, up from 89 million tonnes a year in 2005.



Further investment by the Australian Rail and Track Corporation will provide rail capacity to support the development of another Newcastle coal terminal by the Newcastle Coal Infrastructure Group in 2010–11 with an annual capacity of 30 million tonnes.

Broad Access to Telecommunications Infrastructure

The internet and e-commerce have boosted the international competitiveness of Australian businesses. Many Australian firms are now using internet technology to expand into new foreign markets.

E-commerce is an attractive option for Australian exporters, particularly small and medium-sized enterprises (SMEs), due to low overheads and initial outlay of capital, leading to a fast return on investment.

ICT and Australian Businesses 2006

- 48 per cent of small businesses and 80 per cent of medium-sized businesses had a website.
- 67 per cent of those businesses stated that their website increased their business effectiveness.
- 60 per cent of SMEs placed orders for products and services online.
- the percentage of SMEs taking orders online increased from 41 per cent in 2005 to 47 per cent in 2006.
- 49 per cent of Australians made purchases online.

Source: Sensis® e-Business Report, July 2006

Through the Connect Australia programs, the Government is investing \$1.1 billion to assist regional, rural and remote Australia to plug into electronic commerce and business opportunities worldwide. Connect Australia will roll out affordable broadband to these areas, improve access to mobile telephony, build new regional broadband capabilities and establish vital communications services for remote Indigenous communities.

The winner of the Northern Territory's Small to Micro Business Export Award in 2006, the **Mbantua Gallery and Cultural Museum** has worked hard to bring Indigenous art and culture to the world. The hard work is paying off, with its export income growing 180 per cent from 2003 to 2006.

The gallery opened in 1992 and represents over 250 artists from the Utopia region of central Australia. Artworks are also showcased on an online gallery (www.mbantua.com.au). The business now exports to the United States, Europe and Japan and opened a second gallery in Darwin in April 2007.



Innovation, Research and Development Culture

Innovation is a key driver of business performance. Through innovation, businesses can increase productivity, lower production costs, build new markets and boost their international competitiveness.

In 2001, the Government launched Backing Australia's Ability, which was the largest and most comprehensive set of measures ever put in place by an Australian government to support science and innovation. Total funding is \$8.3 billion over the 10-year period from 2001–02 to 2010–11.

Under the initiative, programs have been established to boost Australia's innovative capacity. Five Australian Government portfolios are now principally involved in delivering programs: Education, Science and Training; Industry, Tourism and Resources; Communications, Information Technology and the Arts; Agriculture, Fisheries and Forestry; and Health and Ageing.

The 2007 Industry Statement is expected to boost research and development (R&D) investment by \$1 billion over the next four to five years by extending eligibility of the 175 per cent Premium R&D Tax Concession to R&D projects undertaken in Australia regardless of where the intellectual property is held. In addition, grants of up to \$250,000 will be made available to eligible businesses and public research spin-offs needing start-up assistance to undertake their R&D projects under the new \$90 million Commercial Ready Plus Programme.

The Government is providing \$75.7 million over four years through the National Food Industry Strategy to enhance the food industry's export competitiveness. This includes \$54.2 million for the Food Innovation Grants Programme, which will provide matching funds to Australian food businesses undertaking research and development that improves the industry's competitiveness.

The Government is also providing \$36.2 million over four years to the CSIRO to establish a National Research Flagship for Niche Manufacturing to support the development of niche manufacturing businesses based on nanotechnology.

A strong and effective Intellectual Property (IP) rights system is a vital driver in fostering innovation. The Government takes an active stance in protecting our IP rights — currently worth at least \$30 billion — including multilaterally through the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights, in APEC and bilaterally through free trade agreements.

Protecting the Environment — Sustainable Development

The Government is committed to environment protection and sustainable development.

Efficient and more productive water use has become increasingly important as drought continues to affect Australia's rural sector, including agricultural trade. Around 65 per cent of Australia's total water is used in agriculture.

The Government's water reforms aim to provide greater certainty for investment and the environment and to underpin the capacity of residents, businesses and farmers to deal with change responsively and fairly. On 25 January 2007, Prime Minister John Howard announced the \$10 billion National Plan for Water Security. The Plan includes a nationwide investment in Australia's irrigation infrastructure to reduce leakage from delivery channels and a nationwide program to improve on-farm irrigation technology, metering and measurement. It also includes furthering our development of water markets to ensure that scarce freshwater resources are used as efficiently as possible.

Agrilink Holdings Pty Ltd, an innovative Adelaide-based water management company, provides solutions to measure, monitor and analyse soil moisture to increase water use efficiency. The company exports to Europe, North America, Latin America and Africa and recently opened a third US office to support domestic distribution channels.

The Australia–United States Free Trade Agreement has helped Agrilink’s export business. ‘With the AUSFTA, we have experienced tariff reductions on our products, which essentially translates to a 10–12 per cent reduction on the list price — a significant saving we can pass on to our customers, and enough to make us competitive in the US market against similar products,’ Peter Moller, Agrilink’s Director of Business Development said.

A recipient of the Government’s Export Market Development Grants scheme, Agrilink has also benefited from Austrade assistance in the US market, including market research, trade show support and introductions to key customers. Agrilink exhibited as part of the Australian Pavilion at the world’s largest farm show, World Ag Expo 2007.



The Government will spend almost \$2 billion over five years from 2008–09 on the next generation Natural Heritage Trust, with a key focus on promoting profitable and sustainable land management. The Government is also continuing its longstanding commitment to Landcare with \$147.9 million over four years. Around 75 per cent of farmers and land managers are involved in Landcare activities. Landcare's promotion and implementation of sustainable and innovative practices is providing a more resilient resource base for farmers looking to take full advantage of future export market opportunities.

Climate change is a key issue that must be addressed effectively and equitably to ensure Australia's future trading prosperity. As a net energy exporter, Australia must look for a balanced approach to climate change that protects our natural trading advantages while contributing to global efforts to manage greenhouse gas emissions.

International business-to-business cooperation will be critically important to any environmentally effective response to climate change. Australian businesses have responded positively to the practical, pro-growth agenda of the Asia–Pacific Partnership on Clean Development and Climate (AP6), which brings together businesses and governments from key developed and developing countries. Australian companies have been heavily involved in the development of practical climate change projects in the AP6 private–public task forces. Renewable energy missions to key export markets, including China, continue to provide further business opportunities for Australian exporters.

Australian businesses are also global leaders in the development and use of low-emissions technologies, supported by the Government's around \$3 billion investment in practical climate change action. Initiatives such as the \$50 million investment in International Power's \$360 million clean coal project in Victoria ensure Australian companies retain their leading edge in emissions reductions technologies.

We are working with key countries to bring forward the technologies needed to reduce emissions and support the clean use of fossil fuels. Australia and China are developing clean coal technologies through the Australia–China Coordination Group on Clean Coal Technology. Australia is also a founding member in strategic international partnerships that cover carbon capture and storage, methane capture, hydrogen development and the promotion of renewable energy.

The Government is also pushing for more certainty for Australian exporters by advocating a more effective international response to climate change under the United Nations Framework Convention on Climate Change. Any future agreement must involve all major emitters in order to deliver the emission reductions the world needs and to ensure a fair international trading environment for Australian exporters.

To prepare Australia for the potential impacts of climate change, the Government has committed \$126 million to establish a National Climate Change Adaptation Centre. This will help vulnerable sectors and regions understand the impacts of climate change and develop practical responses.

Global Renewables, a subsidiary of Western Australia-based company GRD Limited, has teamed up with a major international company to help minimise the environmental impact of household waste in the United Kingdom.



Global Renewables, along with Bovis Lend Lease Ltd, and with the acknowledged assistance of Austrade, recently signed a 25-year contract with the Lancashire County Council and Blackpool Council, UK, worth more than £2 billion (\$5 billion).

The companies will construct and operate two cutting-edge waste management facilities, expected to dramatically reduce the amount of waste sent to landfill, avoid the need for incineration, increase recycling rates and reduce greenhouse gas emissions from household waste.

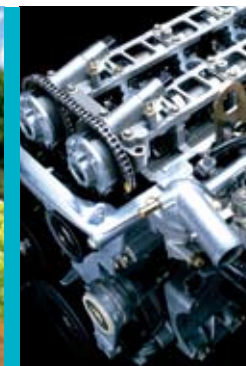
Founded in 1963 and based in Welshpool, Western Australia, **Edwards Hot Water** is one of the largest manufacturers and marketers of solar water heaters in the world. The company currently exports to over 60 countries.



Edwards is currently supplying solar water heaters to Thailand for the domestic housing, hotel and resort industries.

5

Opening Doors for Australian Exporters



Opening Doors for Australian Exporters

- In 2005–06 Austrade provided export-related assistance to more than 16,000 Australian clients and assisted approximately 5,100 Australian companies to generate \$18.4 billion in export sales.
- In 2006, the Australian Government allocated a further \$23 million over four years in additional funding for the TradeStart program, which has helped exporters to achieve more than \$354 million in export sales during 2005–06.
- Support from the Australian Government's Export Finance and Insurance Corporation enabled Australian exporters and investors to sign overseas contracts worth \$626 million.
- In July 2006, EFIC launched its EFIC Headway product which enables SMEs to overcome working capital shortages and become export-ready.

The Australian Government provides a range of support services to encourage more Australian businesses to export, in particular through Austrade and the Export Finance and Insurance Corporation.

Austrade — Helping to Generate Billions in Export Income

Austrade facilitates export trade and international business through targeted programs and services for new and established exporters. Austrade's corporate objectives are to assist more Australian businesses to become sustainable exporters, to help established exporters increase export value, to expand delivery of Austrade services through allies and partners, and to raise awareness of the benefit of exporting among businesses and the community.

Austrade and its predecessor, the Australian Trade Commissioner Service, has over 70 years of experience in assisting businesses, particularly small and medium-sized enterprises (SMEs), to develop and access export markets. In 2005–06, Austrade provided services to more than 16,000 clients and assisted approximately 5,100 Australian companies to generate \$18.4 billion in export sales.

Exporter Assistance Programs

New Exporter Development Program

Austrade has established the New Exporter Development Program (NEDP) to help Australian companies advance their business interests overseas. The NEDP is

delivered by Austrade and the TradeStart network, and is designed for Australian SMEs that have limited or no experience in exporting. The Program helps eligible businesses develop the skills and knowledge required to seek out and be ready for export opportunities.

Participants work with an assigned export adviser from Austrade or TradeStart over an 18-month period and receive services including: assistance in selecting export markets; export coaching that is tailored to the needs of the business; and 20 hours of assistance at no charge, delivered through Austrade's overseas network in a maximum of two markets.

With her sights set on export success, Aheda Zanetti has created a fashion range that can help millions of Muslim women worldwide achieve an active lifestyle.



Her small business **Ahiida** produces a range of modest swimwear with a hood-shaped Hijab — called the 'Hijood' — which was exhibited overseas for the first time in July 2006 at the inaugural IslamExpo in London.

Ms Zanetti participated in the New Exporter Development Program, delivered by Austrade as part of her export preparation. Ms

Zanetti said she appreciated the Program's support. 'It means a little bit of extra confidence and backup, knowing that an Australian Government organisation is supporting me,' she said.

TradeStart

TradeStart is a partnership between Austrade and industry associations, state and territory governments and regional development bodies. It aims to assist SMEs to commence exporting on a regular and sustainable basis and takes into account the particular needs of regional Australian businesses through a substantial regional network.

TradeStart export advisers provide a package of free export coaching services, from initial advice about exporting and business opportunities in overseas markets to mentoring and access to assistance from Austrade's overseas posts.

A rapid increase in the take-up of TradeStart services has led the Government to allocate \$23 million in funding to extend the program until 2009–10. Between

2002–03 and the end of 2006, TradeStart assisted 1,726 clients (858 in 2005–06), to achieve export sales of over \$692 million (\$354 million in 2005–06).

Export Market Development Grants

The Export Market Development Grants (EMDG) scheme is a key Australian Government financial assistance program for aspiring and current exporters. The scheme is administered by Austrade and encourages SMEs to develop export markets by reimbursing up to 50 per cent of eligible export promotion expenses in a financial year above a threshold of \$15,000. Eligible businesses can receive a maximum of seven grants of up to \$150,000 each, subject to funds available in the scheme.

In 2005–06, the number of grant recipients increased 6 per cent to 3,485, and payments increased 11 per cent to \$137.1 million. The scheme is popular and relevant to small and emerging exporters, with around 80 per cent of recipients reporting annual income of \$5 million or less. Nearly a quarter of all grants were awarded to recipients from rural and regional Australia.

Recognising the success and strong demand for the scheme, the Government has continued the scheme for a further five years, until the end of 2010–11. Measures to simplify and enhance the scheme apply to EMDG applications lodged from 1 July 2007.

West Australian-based **Immersive Technologies** pioneered the development of high-fidelity simulator training solutions for the mining industry. The company exports 80 per cent of its products which are used in diverse locations from the frozen arctic to the deserts of Africa. The sale of this technology overseas means that Australia can take advantage of the mining boom not just in Australia, but all around the world.



Now an industry leader, the company initially sought assistance from Austrade and the EMDG scheme. Company spokesperson Oye Obe said: 'The Australian Government's EMDG scheme has been of great benefit to us in facilitating the growth of our export markets. It shows strong support from the Government to push growing Australian businesses to great heights in the world market.'

USA Export Facilitators Programme

Australian businesses looking to break into the important United States market will benefit from a 2007–08 Federal Budget initiative to extend the Austrade-managed USA Export Facilitators Programme. Announced as part of the Australian Government's Industry Statement, this will provide \$11.1 million in funding over two years for the program that was established in 2005 to help businesses take advantage of export opportunities arising from increased market access under the Australia–United States Free Trade Agreement.

Since its introduction, the USA Export Facilitators Programme has directly assisted more than 450 businesses which have achieved over \$280 million in exports to the United States and has been effective in developing export opportunities for Australian businesses in the world's largest market. Located around Australia and throughout the United States, the 30 export facilitators have helped directly support an 80 per cent increase in export successes and helped boost the dollar value of those deals by around 50 per cent since 2005.

Business Club Australia

Business Club Australia (www.businessclubaustralia.com.au) is a free membership-based business matching program that creates international business opportunities from interest in major international sporting events. The Club, conceived and managed by Austrade, has been highly successful, having facilitated over \$1.7 billion in business deals.

The program offers online and one-on-one business matching services. It holds networking events around the world to help exporters find and develop business relationships. The Club has 8,500 members, including a large international membership of 37 per cent.

After the success of its Rugby World Cup 2003 program in Australia, which facilitated 295 export deals worth \$496 million, the Club will extend its reach overseas for the first time with the Rugby World Cup 2007 in France from 7 September to 20 October.

A Business Club Australia program was run in March 2007 for the FINA World Swimming Championships in Melbourne and another is planned for the Melbourne Cup Carnival in November 2007.

The Australian Olympic Committee recently endorsed Business Club Australia as its official international business program for the Beijing 2008 Olympic Games. Planning is well under way for this program.

Corporate Partnerships Program

The Government's Corporate Partnerships Program, delivered by Austrade, promotes awareness of international business opportunities and export assistance programs via the private sector. Through the professional development program, Going International, and cooperating with Austrade in marketing and media activities and making connections through Austrade's global network, Corporate Partners are more readily able to advise and help their clients win business overseas.

Austrade currently has 15 formal alliance partners, including accounting firms, professional bodies, banks, lawyers and logistics firms.



Taking state-of-the-art Bluetooth technology and using it to create hands-free, stereo audio streaming and wireless communication products, **BlueAnt Wireless** has rapidly become Australia's largest supplier of Bluetooth peripheral devices.

With the assistance of Austrade's Corporate Partnerships and New

Exporter Development Programs, BlueAnt now has nine US distributors, including three of the major IT and telecommunications distributors, through which it has access to more than 45,000 US retail outlets.

In addition to its successful launch into the US market, BlueAnt intends to take its innovative product range to the rest of the world, with the European and Asian markets of particular interest.

Raising Export Awareness

Austrade runs an extensive program of events to promote its services, with major emphasis on market and industry seminars. In 2005–06, more than 13,000 people attended over 300 events including Women in Export, Protection of Intellectual Property in China and Winning Business in the Middle East.

Women in Export Seminars

Austrade held a series of highly successful Women in Export seminars in May 2006. Women run one-third of Australia's SMEs, which make up over 80 per cent of Australia's exporters.

More than 1,000 participants from a diverse range of industry sectors gained an understanding of the full range of Government export assistance services and listened to presentations by female Senior Trade Commissioners. Successful Australian businesswomen were highlighted as case studies to provide practical insight into winning international business.

At the invitation of the Office for Women, Austrade will host a Women in Export Trade Day as part of the lead up to the APEC Women Leaders Network in June 2007. The Day will be attended by local aspiring exporters and international APEC delegates and will comprise a series of practical export workshops.



Innovation is the cornerstone of success for **Autech Software & Design**, a Launceston-based ICT company. The company first identified a niche paint-colour-scheming software market in 1993 and now receives up to 85 per cent of its revenue from exporting to 45 customers in 14 different countries, including the United States and China.

In February 2007, Autech was contacted by Nippon Paint China after Autech CEO, Darren Alexander, was interviewed on Chinese television about G'Day USA. G'Day USA is an annual major promotional event held in the United States to showcase Australian exports.

Autech was the inaugural winner of the G'Day USA *Innovation Shootout Award* in January 2007, which was judged by the Assistant Editor of the *Wall Street Journal* and others. Since the inaugural win, Autech has signed a lucrative deal with Nippon Paint and continues to field enquiries from the United States.

G'Day USA: Australia Week 2007 was a joint initiative by Austrade, the Department of Foreign Affairs and Trade, Tourism Australia and Qantas Airways.

Making Access to Export Assistance Easy – Austrade’s Extensive Network

Austrade is represented internationally in more than 140 locations in over 60 countries. Its domestic network comprises 18 Austrade offices and 51 TradeStart offices. The TradeStart offices include eight Export Hubs which were established through a \$6.4 million Government fund. The Export Hubs provide the services of both TradeStart and AusIndustry in one convenient location. They are located in Launceston, Bundaberg, Carnarvon, Port Augusta, Darwin, Ballarat, Bega and Tweed Heads. In 2005–06, Export Hubs assisted 72 regional businesses to achieve exports sales of over \$27 million.



Web-based Information for Exporters

The Austrade website (www.austrade.gov.au) continues to be a key information and marketing channel for Austrade. The website provides Australian companies with initial export research and includes the Australian Suppliers' Directory that lists more than 10,000 Australian businesses that work with Austrade to export their services and products. The website remains a fundamental resource for Australian business, receiving over 2 million user visits in 2006.

Austrade's Exporting for the Future education program continues to break new ground in order to raise the importance of international business issues amongst students — Australia's future exporters. The program now provides multimedia and on-demand podcast clips from business case studies, in addition to its range of teaching resources and professional development seminars for educators. It launched the senior secondary school business studies book and DVD *Innovative Australian Businesses Go Global* in 2006. The tertiary level multimedia resource *Next Step the World* series 2 was launched in 2007.

Export Finance and Insurance Corporation

The Export Finance and Insurance Corporation (EFIC) provides innovative finance and insurance solutions to Australian businesses exporting and investing overseas. Drawing on 50 years of experience, EFIC has developed extensive expertise in complex financial transactions, particularly in riskier or more difficult markets.

As the Government's export credit agency, EFIC provides finance, finance guarantees, insurance and bonding facilities beyond what is available in the commercial market. In May 2007, the Government announced a broadening of EFIC's mandate to enhance its support for Australian SMEs wishing to establish global supply and distribution chains. Over the past five years, EFIC has supported \$4.4 billion of Australian exports and investments.

EFIC is backing Australia's manufacturing and services exporters by providing medium to long-term finance facilities to buyers of Australian exports, or to their financiers. For example, in 2006, EFIC provided a guarantee to a bank to support the Istanbul Metropolitan Municipality's purchase of two high-speed catamarans from Austal Ships Pty Ltd, worth nearly US\$107.2 million. An export finance guarantee from EFIC in 2006 helped DBT Australia Pty Ltd to finalise the export of coal mining equipment to Russia.

EFIC is also assisting the Australian mining industry to export services and invest in offshore operations. In 2006 EFIC issued bonds to the value of \$16.7 million to support GRD Minproc's contract with the Brazilian mining company CVRD for the development of a US\$1.2 billion greenfield nickel mine. Also in 2006, EFIC provided

debt financing of US\$43 million to support Australian involvement in the development and operation of Africa's largest open-pit copper mine project, Lumwana in Zambia. EFIC is working with private sector insurers and reinsurers to finalise the necessary political risk insurance for the project. EFIC's cover will be among the largest syndicated risk policies written for an African project.

EFIC is helping SMEs to take advantage of export opportunities that would otherwise be lost due to working capital shortages. Through EFIC Headway, SME exporters may be able to increase their access to working capital by 20 per cent. EFIC Headway is a guarantee from EFIC to a bank that allows the bank to extend lending facilities to SMEs without requiring additional security.

EFIC Headway has assisted SMEs from a wide range of sectors. For example, the facility has allowed a New South Wales manufacturer of pumps to expand its distribution in the United States; a Victorian food company to access new markets in Asia; and a Queensland ice-cream manufacturer to expand its export markets in Asia and Canada.



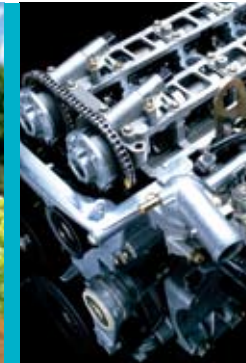
Queensland-based **Frosty Boy Australia** started 30 years ago with a fleet of vans selling soft serve ice creams in suburban Brisbane.

The company is now making its mark on world export markets with additional working capital provided through EFIC Headway and Westpac.

Frosty Boy Australia was able to accelerate its exports to China, Canada and the Republic of Korea, building on their export markets of over 30 countries including the Philippines, Saudi Arabia, Indonesia and Vietnam.

6

The World Trade Organization — Delivering Benefits



The World Trade Organization — Delivering Benefits

- The successful conclusion of the Doha Round negotiations of the World Trade Organization would result in reductions in trade barriers in all major economies.
- A strong Doha outcome would create substantial new opportunities for Australian exporters.
- Vietnam's accession to the WTO in 2007 resulted in better access to that country for a range of Australian exports.
- The Government has maintained a high level of involvement in WTO legal disputes in areas of commercial interest to Australia.

The Doha Round — the Scope of the Gains for Australia

The successful conclusion of the Doha Round of WTO trade negotiations remains the Government's top trade policy priority.

This is because all WTO Members participate in such rounds, and the market openings they make are available to all other Members. So the current Doha Round means that, in effect, Australia is negotiating trade deals with 149 economies at the same time. In addition, the Doha Round, like previous multilateral rounds, also covers the rules that govern global trade, dealing with distortions such as the subsidised competition faced by Australian agricultural exporters. Once agreed, market access commitments and trade rules can be enforced through the WTO's dispute settlement mechanism.

The Doha Round negotiations were launched in Doha, Qatar, in November 2001. They aim to build on the outcomes of the Uruguay Round, which resulted in the creation of the WTO in 1995, including by strengthening trade rules and creating greater access to markets. Issues being negotiated include agriculture, services, industrial products, trade facilitation and WTO rules on issues such as subsidies.

The market access gains from a successful Doha Round will be considerable, benefiting Australia's traders and stimulating global economic growth from which Australia can profit. The World Bank estimates that full merchandise trade liberalisation could boost global income levels by US\$287 billion in 2015.

For the Doha Round to conclude successfully, substantial progress will be needed in all three core areas of the negotiations — agriculture, non-agricultural market access (which includes manufactures, seafood, forestry, minerals and metals) and services.

Reform of global farm trade is imperative given high market access barriers, the scale of domestic subsidies and the damaging effect of export subsidies. Agriculture remains the most distorted sector of international trade, and more open markets will deliver significant new commercial opportunities for Australian farmers, who export around two-thirds of all they produce. Our aim in the negotiations is to achieve improved commercial opportunities for all farm exporters including dairy, grains, meat and livestock, sugar and horticulture producers.

The Doha Round outcome on non-agricultural market access must also deliver commercially meaningful improvements in market access. Trade in non-agricultural products accounts for around 90 per cent of global trade in goods, so a strong outcome will provide a significant boost to the world economy, with flow-on benefits to Australia. More specifically, Australian exporters in a range of categories — for example seafood, minerals and metals — stand to gain from improved access to foreign markets.

Australia is also working hard to achieve improved access to overseas markets for Australian services exports through the Doha Round. Services exports already account for 21 per cent of Australia's total exports and have been growing at an annual rate of 4.5 per cent over the past five years. Our priorities include making it easier for Australian companies to maintain a commercial presence in foreign countries, greater regulatory transparency and improved business mobility for fly-in, fly-out contractors and professionals. Priority sectors include financial, telecommunications, education, mining-related, environmental and professional services.

The Doha Round — at a Critical Stage

The WTO now has 150 Members, and a majority of the membership comprises developing countries. The WTO works by consensus — that is, all Members must agree before any decision can be taken. So bringing to completion a large-scale negotiation like the Doha Round, which covers a wide range of complex issues, is difficult. A significant and sustained commitment from all WTO Members will be needed.

The Round is now at a critical stage. The resumption of negotiations in February 2007 offers the hope that it may be possible to conclude the Round this year, but there is an urgent need for key WTO Members to show flexibility and greater resolve if this is to happen.

The Australian Government has been one of the most active participants in the Doha Round, playing an important and influential role.



2007 Cairns Group meeting in Lahore, Pakistan.

Australia is the chair of the Cairns Group which, two decades after its formation, remains a leading voice for reform of global trade in agriculture. The Cairns Group has played an important role in the Doha Round, contributing ideas to the negotiations and strongly advocating the need for genuine reform. In particular, the Cairns Group has successfully progressed its negotiating objectives, for example in principle agreement to abolish the use of agricultural export subsidies by the end of 2013. This has been a long-held goal of the Cairns Group. The 20th Anniversary Meeting in Cairns in September 2006 helped lead to a resumption of the Doha negotiations following their earlier suspension.

The vitality of the Cairns Group was highlighted in November 2006 when it was agreed that Peru would become the Group's nineteenth member, following Pakistan's decision to join at the end of 2005. Pakistan hosted the 31st Ministerial meeting of the Cairns Group in April 2007.

As well as its leadership of the Cairns Group, Australia has played an active role in other small informal groups including the G6, comprising Brazil, India, the European Union (EU), the United States (US), Japan and Australia.

World Agricultural Markets — the Distortions Facing Australia's Exporters

High tariffs and other market access barriers in key importing countries are the primary cause of major distortions in world agricultural markets.

- For example, bound tariffs (the maximum tariffs allowable) for rice in Japan are equivalent to 777 per cent and a range of EU dairy products have bound tariffs of over 200 per cent.

Trade-distorting domestic support also has a substantially negative effect on exporting countries because of the sheer size of the support relative to the size of the market.

- According to the 2006 WTO World Trade Report, from 1995 to 2001 the EU spent an average of US\$96.1 billion per year on domestic support, followed by the US with US\$66.2 billion and Japan with US\$41.8 billion.

Export subsidies are a highly trade-distorting, direct form of agricultural support.

- The EU and the US are currently entitled to provide a combined total of close to US\$10 billion in export subsidies per year as a result of the Uruguay Round of negotiations.
- At the WTO Hong Kong Ministerial Meeting in December 2005, it was agreed that all forms of export subsidies would be eliminated by the end of 2013.

Australian farmers will continue to face a distorted and unfair world agricultural market unless there are deep cuts in trade-distorting domestic support, significant reductions to market access barriers and the elimination of all forms of export subsidies.

Trade and Development

Australia believes an ambitious Doha outcome is the most effective way to enhance the opportunities for developing countries from world trade. Removing barriers to trade in agriculture is of particular importance. Agriculture is not only highly distorted by subsidies and trade barriers, but is also the sector from which the majority of populations in most developing countries derive their livelihood.

Australia fully supports the development focus of the Doha Round, including in relation to trade-related technical assistance and capacity building. Australia is committed to provide more than \$90 million of such assistance, focused on South-East Asia and the South Pacific. The Australian Government also supports the development of trade-related infrastructure in the Asia-Pacific region. In 2005,



Australia spent more than \$69 million to support the development of transportation networks and other infrastructure to facilitate trade.

Australia has been a long-term provider of preferential market access for developing countries and Least Developed Countries (LDCs). Since July 2003, Australia has provided comprehensive

quota-free and duty-free market access for all LDCs on all products with no phase-in periods or exceptions. This represents the most comprehensive and open regime for LDCs offered by a developed country.

The WTO – Preserving the Rules

The WTO system is much more than the Doha Round. It has delivered substantial improvements in our access to other countries' markets over the past decade outside trade rounds, principally through new members acceding to the WTO. It provides a set of agreed rules under which trade is conducted and disputes resolved.

The multilateral trading system embodied by the GATT (General Agreement on Tariffs and Trade) and its successor, the WTO, has delivered significant global reductions in tariffs and other trade barriers. For example, the average global tariff rate on industrial products was roughly 40 per cent at the end of World War II; this has been gradually reduced to around 5 per cent. This reduction has delivered significant benefits to Australian exporters. In addition, Australian importers have been able to pass savings on to consumers, reducing the cost of many everyday goods and improving living standards.

WTO Membership now stands at 150. Since the organisation was established in 1995, 22 new Members have joined, including such significant economies as China, Saudi Arabia and Vietnam. These accessions have enabled Australia to negotiate market access openings for goods and services of interest to Australian exporters. They have also added substantially to the global economy by facilitating growth in acceding countries. For example, China now imports more than Japan and Australia combined. Vietnam completed its accession negotiations to the WTO in 2006, with important market access gains for Australia. There are currently more than two dozen other countries, including Russia, that have applied to join the organisation. Australia concluded its bilateral market access agreement with Russia in June 2006 (see page 86), although Russia's overall accession negotiations continue.

Australia's trade with Vietnam has flourished over recent years as a result of Vietnam's economic growth driving demand for imported goods. Two-way trade reached \$7.3 billion in 2006, 54 per cent above 2005.

Vietnam joined the WTO on 11 January 2007, after nearly 12 years of negotiations. Australia participated actively in the negotiations. Benefits for Australia include enhanced access for dairy, sugar, confectionery and fruit exports, as well as for banking, education, environment and mining services. These market access opportunities represent tangible benefits of Australia's membership of the WTO.



Vietnam's WTO commitments provide a more secure basis for Australian companies doing business in Vietnam. For example, foreign firms can now export and import in their own right and Vietnam has undertaken to raise the protection of intellectual property rights to global benchmarks.

The WTO also provides a forum for sectoral trade negotiations outside multilateral rounds. For example, in the review of air transport services under the auspices of the General Agreement on Trade in Services (GATS), Australia is seeking to lock in important liberalisation in the air transport sector that has taken place in recent years, particularly for ancillary services such as ground handling and airport operations.

The WTO's Trade Policy Review mechanism means that WTO Members can examine Member countries' trade and related policies at regular intervals and monitor significant developments that can affect the global trading system. Australia uses this process to examine and challenge the trade and domestic policy settings of our major trading partners. At the last review of Australia, in March 2007, the WTO Membership noted that trade liberalisation — much of it unilateral — had been an integral part of the reforms that had contributed to Australia's 'impressive' economic performance.

WTO Dispute Settlement

The WTO's dispute settlement system has also removed some of the most restrictive global trade practices, through more than 100 completed rulings and as many settled 'out of court'. Some of these rulings have wide, liberalising implications, and have shaped the negotiating positions in the current Round.

Australia has used the WTO dispute settlement system to gain significant benefits for Australian exporters in important overseas markets. Disputes taken by Australia have delivered benefits in various sectors, including lamb, beef and sugar.

As a consequence of the successful 2005 WTO challenge by Australia and other countries to the EU sugar export subsidies, the EU introduced reforms to its sugar regime in mid-2006. The EU forecasts that the reforms will result in the EU becoming a net importer of sugar, compared to its current status as the world's largest sugar exporter. We continue to monitor the EU's implementation of the WTO ruling.

Similarly, as a result of a WTO challenge by Australia and the United States, the EU substantially revised its regime for the protection of geographical indications for foodstuffs and agricultural products in early 2006. Under the revised regime, non-EU nationals have improved rights to protect existing trademarks within the EU. In addition, it will now be more difficult for EU producers to prevent Australian products being sold in other countries using product descriptions that consumers in those markets know and understand.

In March 2007, Australia and the EU notified the WTO that a solution had been reached in the EU's challenge to aspects of Australia's quarantine regime, bringing this case to an end.



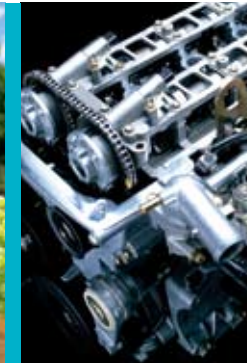
Australia has continued to play an active role as a third party in a wide range of WTO disputes, particularly where we have strong commercial or legal interests. These have included Turkey's rules for rice imports; the EU's system for customs administration; the EU's approval procedures for biotech products; China's measures on automotive parts; and China's tax measures, which affect a range of products.

An active approach to dispute settlement will continue to be an essential strategic element of Australia's overall trade policy.

Minister Truss meeting with Director-General of the World Trade Organization, Pascal Lamy.

7

APEC — Promoting Prosperity, Building a Sustainable Future



APEC — Promoting Prosperity, Building a Sustainable Future

- APEC (Asia–Pacific Economic Cooperation) is the pre-eminent economic forum in the Asia–Pacific region, the part of the world that accounts for 69 per cent of Australia’s trade.
- Australia can influence outcomes in APEC on issues critical to the region’s prosperity and security.
- Australia is hosting APEC in 2007, culminating in the annual Leaders’ Meeting on 8–9 September. APEC 2007 will showcase Australia and could shape APEC well into the future.
- In 2007, APEC will address major trade, economic, security and social issues such as the Doha Round of multilateral negotiations, clean development and climate change, strengthening economic integration in the region, reducing business costs, counter-terrorism and responses to human pandemics.

Since 1993, APEC has brought regional Leaders together annually to discuss the key challenges facing the Asia–Pacific. Its most important objective is to enhance and sustain the dynamism of the region in order to increase the prosperity and security of its peoples.

APEC economies account for 41 per cent of world population, 56 per cent of world GDP and 44 per cent of world trade. APEC’s commitment to free and open trade in the region has seen its Members outperform the rest of the world in terms of economic growth.

- Average tariffs across the APEC region declined from 16.9 per cent in 1989 to 5.5 per cent in 2004 — and even less today.
- Real GDP for APEC economies increased by 46 per cent from 1989 to 2003 compared with 36 per cent for non-APEC economies.
 - Per capita GDP increased by 26 per cent compared with 8 per cent for non-APEC economies
 - Developing APEC economies grew by 77 per cent — more than double the non-APEC rate.

APEC has played a key role in building regional support for trade liberalisation and economic reform. It has cut business costs through trade facilitation in a way not matched by any other regional forum. APEC has strengthened economic cooperation among its Members. It is now also taking action on broader issues vital to the region’s continuing growth and development and security such as clean development and climate change, counter-terrorism and human pandemics.

APEC's initial Ministerial meeting was convened in 1989 in Canberra. Australia has continued to play a key role in developing APEC and shaping its agenda.

The APEC meetings have returned to Australia in 2007 and are expected to draw some 15,000 people to Australia — ranging from political leaders to officials, business leaders and journalists. These meetings will provide Australia with an opportunity not only to showcase its society but to shape APEC into the future.

As host of APEC, Australia is pushing for strong outcomes in a number of key areas such as energy security and clean energy, and has initiated a discussion of climate change, which has not been a major part of the APEC agenda to date. Australia is also determined to use its year as host to strengthen APEC as an institution.

Maintaining outward-looking and liberal economic policies in the Asia–Pacific is important for Australia's trade and investment interests and, increasingly, for the world. APEC Members remain committed to the Bogor Goals of free and open trade by 2010 for developed economies, and by 2020 for developing economies. It will also be important to maintain APEC's vigorous support for a successful conclusion of the WTO Doha Round of trade negotiations — just as in the earlier Uruguay Round, support from APEC was important in building pressure for high-quality outcomes to that Round.

In addition to the Bogor Goals and support for the WTO, APEC is examining other ways to strengthen economic integration in the Asia–Pacific region. Australia is leading the drafting of a report to be presented to Leaders in September on a broad range of options to promote regional growth and economic integration, including the possibility of a Free Trade Agreement of the Asia–Pacific (FTAAP) as a long-term prospect.

APEC Economies:

- account for 69 per cent of Australia's total trade and eight of our ten largest export markets
- traded goods and services with Australia worth more than \$290 billion in 2006
- increased their imports of Australian merchandise in 2006 by 14.6 per cent to \$117 billion
- are major tourist sources for Australia (seven out of our eight largest markets and two-thirds of all visitors)
- account for 68 per cent of Australia's education exports
- provide around 40 per cent of foreign investment into Australia
- receive around 63 per cent of Australia's total investment abroad.

Rapidly increasing wealth in the APEC region, characterised by strong growth in the middle classes with rising purchasing power, should give rise to new trade and investment opportunities.

Business people in the APEC region, including the APEC Business Advisory Council, have acknowledged the economic benefits of free trade agreements (FTAs) and regional trade agreements (RTAs)¹ but have expressed concern about the regulatory costs to business of the increasingly complex trading environment that has resulted from the growth in the number of FTAs and RTAs. APEC is addressing this by agreeing best practice guidelines for FTAs/RTAs and developing model outlines of FTA/RTA chapters to encourage Members to adopt similar approaches in their agreements. Such guidance will help APEC economies develop arrangements that are easily understood and support business.

One of the most valuable areas in which APEC can help business is by facilitating trade. APEC Members agreed in 2001 to reduce trade transaction costs in the region by 5 per cent by 2006. An independent report found this has been met, resulting in major productivity gains. In 2006, APEC Leaders committed to a further 5 per cent reduction by 2010. A common APEC approach to 'Single Windows' for the electronic submission of import/export documentation, designed to reduce bureaucratic red-tape, will promote consistency in the treatment of all trade-related documentation by Member Economies, thereby making cross-border trading easier, more transparent and more efficient.

A key objective for Australia in 2007 is to significantly expand APEC's work on structural reform, as well as other so-called behind-the-border issues that can impose considerable costs on doing business and hold back growth. A plan for work on structural reform for the medium to long term has been developed. APEC's Economic Committee is currently focusing preliminary work on five priority areas — competition policy, regulatory policy, public sector management and governance, corporate governance, and strengthening economic and legal infrastructures. APEC is well placed to promote this agenda because of its non-binding nature, diverse membership and ability to provide capacity-building assistance.

Clean development and climate change will be a major theme of the Leaders' discussions. By working together in APEC, we will be better able to build collaboration to meet increased energy needs and address associated challenges, including those related to energy security, air pollution and greenhouse gas emissions. It will also bring an Asia-Pacific perspective to international efforts on climate change.

APEC economies are developing an increasingly significant human security agenda. The Counter-Terrorism Task Force is working with economies to identify ways to improve the security of supply chain logistics, limit financing options for terrorists and improve coordination on counter-terrorism measures. APEC is also working to

1 The expression 'regional trade agreement' is often used interchangeably with 'free trade agreement', especially when several parties are involved.

strengthen the ability of governments to respond to pandemics, including reducing their economic impact, and to improve emergency preparedness through training, cooperation and collaboration at official level.

APEC Business Travel Card

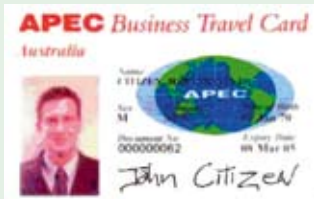
The APEC Business Travel Card is an Australian initiative that gives frequent business travellers from participating APEC economies streamlined entry to other participating APEC economies. The scheme enables business people, through a single application form, to obtain multiple short-term entry to all participating economies. This saves cardholders the time and effort involved in applying for individual visas or entry permits. The card also fast-tracks the entry and exit of cardholders through special APEC lanes at major international airports in participating economies.

Full APEC participation in the scheme is now within reach. At the meeting of the APEC Business Mobility Group in Canberra mid-January 2007, the four non-participating economies — the United States, Canada, Russia and Mexico — indicated that they were exploring options to participate in the scheme. Although not fully participating, the United States and Mexico currently recognise the card for priority border processing at their international airports.

There are now over 21,000 APEC Business Travel Cards in circulation with more than 8,000 held by Australian passport holders.

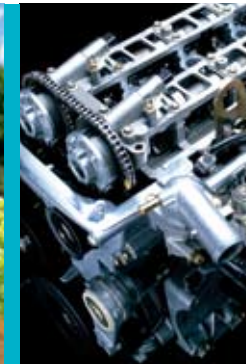
“This travel card would have to be one of the best tools a business traveller could possibly have. I travel at least every six weeks and this is one thing I would not be without. My passport used to get filled up with visas for China, now I just show up and they just smile and stamp.”

— Michael G Gleeson, Executive Director,
Unigrain Pty Ltd



8

Free Trade Agreements — Partnerships for Growth



Free Trade Agreements — Partnerships for Growth

- The free trade agreements (FTAs) concluded by the Australian Government and those being pursued aim to secure improved access to markets accounting for more than 60 per cent of Australia's total trade.
- During 2006, the Australian Government announced the commencement of FTA negotiations with Japan and the Gulf Cooperation Council, a negotiation process with Chile and joint studies with the Republic of Korea and Mexico.
- FTAs offer the prospect of quicker and more extensive gains with individual countries, or groups of countries, than can be achieved through the WTO.
- The proliferation of FTAs around the world means that, to secure Australia's competitiveness in our key export markets, we also need to negotiate FTAs.

The Australian Government aims to achieve FTAs that are comprehensive, providing liberalisation across all sectors. It pursues FTAs that offer the prospect of delivering significant benefits to Australian businesses more quickly than might be possible through the WTO multilateral negotiations among its 150 Members. FTAs can tackle some issues more thoroughly than in the WTO. For example, investment is largely outside the WTO's responsibility.

Ambitious, comprehensive and WTO-consistent FTAs of the sort that Australia aims to achieve can have a positive effect on the multilateral system. They can act as building blocks for global trade liberalisation and reform.

Australia's objective is to ensure that FTAs liberalise international trade and support the move toward a more open global trading system. To ensure that FTAs make the greatest possible contribution to the multilateral trade system, Australia has been one of the strongest advocates for the strengthening of WTO rules on FTAs.

Australia's criteria for negotiating an FTA

When considering the merits of an FTA, the Australian Government examines whether it would:

- have the potential to deliver substantial commercial and wider economic benefits to Australia more quickly than would be possible through multilateral efforts
- be fully consistent with WTO principles and rules, and deliver WTO-plus outcomes
- provide for comprehensive and substantial liberalisation across goods and services trade and investment
- significantly enhance Australia's broader economic, foreign policy and strategic interests.

Australia–United States Free Trade Agreement

The Australia–United States Free Trade Agreement (AUSFTA) came into force on 1 January 2005. While the full benefits will be realised over the years ahead, there are already positive trends emerging. In 2006, the second year of trade under AUSFTA, two-way merchandise trade grew by over 12 per cent. Australian merchandise exports to the United States grew by 8.7 per cent, after falling since 2001. Australia's exports of manufactures grew 9.3 per cent in 2006. These gains are being assisted by the progressive removal of virtually all tariffs, including the removal by 2008 of 75 per cent of US agricultural tariffs. More than 80 per cent of tariffs on Australian goods entering the US market were bound at zero on the first day the Agreement entered into force.

AUSFTA has strengthened an already robust services and investment relationship. Australia's services exports to the United States increased by 10.8 per cent in 2006. AUSFTA has also provided access for Australian businesses to the \$200 billion US Federal Government procurement market and allowed the Government to begin work to improve access for Australian professionals to the US market through mutual recognition of qualifications and licensing requirements. It has provided a framework for further integration of the Australian and US financial services sectors.

Separately, the Australia-only E-3 visa for professionals and their families wishing to live and work in the United States was introduced in September 2005. Since then, more than 3,600 skilled Australians and their spouses have used this visa.

Helping Australian Exporters to Make the Most of AUSFTA

The Industry Statement of May 2007 announced ongoing funding for Austrade's USA Export Facilitators Programme, which provides 30 export advisors dedicated to helping Australian businesses, especially SMEs, pursue opportunities arising from AUSFTA.

As part of the program, Austrade's Atlanta office, in conjunction with its Washington DC-based Selling to Government Team, is helping Australian companies to participate in the reconstruction of the Gulf Coast region of the United States after Hurricane Katrina. It is estimated that over US\$160 billion will be spent on reconstructing affected areas over the next 20 years, the biggest construction program in US history.

Following the success of the first mission of steel-frame companies to the Gulf in August 2006, Austrade partnered with the Government's Industry Capability Network (ICN) in April 2007 to host a second mission of engineering, urban planning and emergency management companies to Louisiana.

Louisiana and Mississippi are signatories to the government procurement chapter of AUSFTA. The companies that participated in the mission are now actively engaged in the US market with two companies having already made sales as a result of the first mission. Other Australian companies assisting with the reconstruction effort include **Clough Limited**, **Sealite** and **Force 10 International Pty Ltd**.



Compucat Research provides specialised communications security software and hardware to military and national security organisations. Compucat won a US\$8 million contract with prime contractor Lockheed Martin to provide software to the US Government.

Compucat Research tendered for the contract under AUSFTA's government procurement provisions. Compucat Research subsequently established Compucat USA Inc, as a wholly-owned subsidiary, to conduct operations in the United States.

Compucat won the ACT Chief Minister's Export Award for excellence in the Information and Communication Technology category in 2006. In 2003 the Government provided a \$2.3 million research and development grant to the company.

Singapore–Australia Free Trade Agreement

The Singapore–Australia Free Trade Agreement (SAFTA), which came into force on 28 July 2003, has eliminated and bound all tariffs at zero. But Australia's principal market access gains from SAFTA are through liberalisation of the services sector. Services exports increased by 10.9 per cent in 2005 and by 13.4 per cent in 2006.

SAFTA is strengthening commercial linkages across the board and promoting a transparent and predictable investment environment to encourage two-way investment. Two-way investment levels amounted to \$29 billion at the end of 2005.

SAFTA continues to create better access for Australia. In 2006, revised arrangements for certificates of origin to ease the administrative burden on businesses entered into force. Singapore also added Murdoch University and the University of Tasmania to the existing list of Australian law degrees that it recognises as part of its commitment under the first review of SAFTA. Australia and Singapore are working towards a second review of SAFTA.

Monash University's **Australian Centre for Retail Studies** (ACRS) is reaping the rewards of the Singapore–Australia Free Trade Agreement. Since May 2004, ACRS has been delivering academic short courses at the Singapore Retail Academy, which was set up by the Singaporean Government.



Demand for ACRS' short courses has continued to grow, with four extended training programs and several presentations held during 2006 through the Singapore Retail Academy.

Australia–New Zealand Closer Economic Relations Trade Agreement



Since the 1983 Australia–New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) created free trade in goods between Australia and New Zealand, two-way merchandise trans-Tasman trade has increased seven-fold. Growth in trade has averaged 9 per cent per annum. In 1988, services were brought into ANZCERTA.

The Government continues to deepen economic integration with New Zealand not only through ANZCERTA, but also through the Trans-Tasman Mutual Recognition Arrangement, the bilateral Memorandum of Understanding on Coordination of Business Law, and the Single Economic Market agenda to promote trade growth and a single trans-Tasman market.

On 1 January 2007, a new Change of Tariff Classification approach to determining country of origin for products under ANZCERTA came into force. This reform promotes trade by simplifying administration and reducing business compliance costs, reflecting growing global practice.

Australia and New Zealand have also started negotiations to add an Investment Protocol to ANZCERTA, aiming to strengthen trans-Tasman investment flows.



New rules of origin arrangements under ANZCERTA — which came into effect on 1 January 2007 — are just the catalyst Australian exporters need to take the next step in the New Zealand marketplace, according to a leading Australian recreational vehicle manufacturer.

Gerry Ryan, Managing Director of **Jayco Corporation**, said “The old rules were a bit complex and involved too much red tape. The new rules make a lot of sense. They reflect the realities of global sourcing of inputs by both Australian and New Zealand manufacturers. They will also make it easier and cheaper for us to sell into each other’s markets”.

The rules of origin establish whether goods are manufactured in Australia (and New Zealand). Australian companies whose goods meet the rules are able to export them to New Zealand without paying customs duty on entry.

Thailand–Australia Free Trade Agreement

In 2006, Thailand was Australia’s ninth-largest two-way trading partner. The Thailand–Australia Free Trade Agreement (TAFTA) has been important in underpinning growth in trade since its entry into force in January 2005.

On entry into force TAFTA eliminated tariffs for Australian exporters on almost half of Thailand’s 5,000 tariff items and as a result in 2006 over 80 per cent of our merchandise exports to Thailand were tariff free. Over 90 per cent of Thai tariffs will be eliminated by 2010.

Australian merchandise exports increased by 17.5 per cent in 2005 (excluding crude oil and gold where trade trends are not directly related to TAFTA). In 2006, merchandise exports (excluding gold and crude petroleum) increased by 26 per cent. Iron and steel, refined copper and pharmaceuticals grew strongly by 95 per cent, 47 per cent and 16 per cent respectively.

TAFTA’s forward work program includes negotiations on services, investment and government procurement, and the establishment of a Market Access Working Group. The Government is looking to engage Thailand’s interim government on this agenda in 2007.

Australia–Japan Free Trade Agreement Negotiations



Minister Truss meeting with Japanese Foreign Minister Aso, accompanied by Ambassador Murray McLean, in Japan November 2006.

In what Prime Minister John Howard described as an enormously important development, negotiations on an FTA with Japan commenced in April 2007.

The talks began positively. As well as agreeing an overall approach to the negotiations, the first meeting reiterated the two Prime Ministers' agreement that all products and issues would be on the table at the outset and that sensitivities were best handled in the negotiations. The Round also underlined both sides' objective for a comprehensive WTO-plus agreement, concluded through a single undertaking.

An FTA with Japan, Australia's largest export market by a wide margin, has the potential to deliver significant economic gains for Australia.

Economic modelling undertaken within a joint government study found that full and immediate bilateral trade and investment liberalisation would boost GDP in both countries. For Australia, even the lower end of GDP gains would equate to \$39 billion over 20 years.

An FTA with Japan would provide Australia with enhanced export opportunities to the world's second-largest economy and Australia's largest market for minerals, energy and food. Around 20 per cent of Australia's exports to Japan face tariffs. Japan had a simple average tariff of 7.1 per cent in 2006 (compared to Australia's 3.5 per cent). An FTA would promote greater Japanese investment in Australia, which would integrate Australia more closely with the Japanese market.

An FTA would also create new opportunities in the services sector that represents more than 70 per cent of the Australian economy. Enhanced business mobility, recognition of professional qualifications and increased services trade would boost two-way investment and people-to-people links. An FTA will encourage companies to

look afresh at Australia and Japan with both countries benefiting from the 'head-turning' effect.

In announcing the decision to commence negotiations, Prime Minister John Howard said it was fitting that the negotiations would commence in the fiftieth Anniversary year of the landmark Australia–Japan Agreement on Commerce.

Mr Howard said there would be no deadline for concluding the negotiations, and that he anticipated the negotiations would be difficult. There are sensitivities on both sides. It will require considerable flexibility and understanding but Australia and Japan have a history of close cooperation and the two governments are confident they can reach an agreement that is a win for both countries.

50 years of the Australia–Japan Agreement on Commerce



The groundbreaking Australia–Japan Agreement on Commerce of 1957 laid the foundation for what has become a remarkably close and mutually beneficial economic partnership.

Australia was only the second country, after the United States, to extend Most Favoured Nation treatment to Japan through the Australia–Japan Agreement on Commerce in 1957. Ten years later,

Japan became Australia's largest export market, a position it continues to hold 40 years later.

In 2006, Japan purchased \$36 billion of Australian goods and services, equivalent to more than 3 per cent of our GDP.

Japan is Australia's largest export market for primary products (as a whole) and specifically for coal, LNG, beef, dairy products, aluminium, copper ores and wood chips. It is our second-largest market for horticulture and seafood, our third-largest market for manufactured goods and our third most important source of tourists.

Japanese investment in Australia has contributed importantly to the development of the Australian economy. In 2005, Japan was Australia's third-largest foreign investor, concentrated in mining, real estate and services. This investment provides employment for about 200,000 Australians.

Benefits from the economic relationship flow both ways. Australia contributed a large portion of the raw materials vital to Japan's post-war economic development. Today, Australia is one of Japan's major suppliers of energy and of many important minerals. Australia also contributes to Japan's food security by supplying around 9 per cent of its food import needs. Australia is Japan's second-largest automotive export market.

Australia–China Free Trade Agreement Negotiations



Minister Truss meeting Minister of Commerce of the People's Republic of China Bo Xilai at the eleventh meeting of the Joint Ministerial Economic Commission.

China is Australia's second-largest goods export market and third-largest services market. Over the past 10 years, Australian exports to China rose more than five-fold to over \$23 billion. Resource exports and processed metals account for around 60 per cent of Australia's merchandise exports to China. Iron ore is the single-largest export item, worth \$7.6 billion in 2006. Other prominent exports include education, wool, copper ores, lead, zinc and manganese ores and coal.

Agreement to begin negotiations on an FTA between Australia and China was reached in April 2005 after a joint feasibility study showed that higher economic growth, resulting in more jobs and higher living standards, would flow to both countries. Economic modelling suggests that an FTA covering goods, services and investment could boost total bilateral trade by US\$5.4 billion in 2015.

Australian exporters and investors face a range of tariff, non-tariff and regulatory barriers. Australia's objectives include removing tariffs on our exports of agricultural, resource and manufactured goods; liberalising tariff-rate quotas on some of our agricultural products; winning better access to the Chinese market for tourism and education services; for our exports of business, professional and financial services; and for construction, transport, telecommunications and other services; removing barriers against investment in mining and other sectors; obtaining access to China's government procurement market; and winning better conditions for Australian intellectual property rights holders.

Negotiations will be long and difficult. Market access negotiations for goods, services and investment began early in December 2006. No timeframe for final agreement has been set, although the Chinese Premier, Wen Jiabao, has proposed that both sides aim to make breakthroughs by April 2008. For Australia, the quality of the outcome and accommodation of both countries' sensitivities will be crucial criteria.

Over the past 18 months, the Government has organised three ministerial-level conferences and nine seminars covering specific agricultural and services sectors to build support in China for the FTA. In Australia, the Government has held more than 500 meetings or discussions with interested groups.

ASEAN–Australia–New Zealand Free Trade Agreement Negotiations

Leaders from Australia, New Zealand and the 10 Association of Southeast Asian Nations² (ASEAN) countries agreed to launch ASEAN, Australia and New Zealand (AANZFTA) negotiations at their summit in November 2004. This is the first time ASEAN has agreed to negotiate a comprehensive FTA as a single undertaking covering trade in goods, services and investment.

In the FTA negotiations, Australia is seeking to maintain its competitiveness in the ASEAN markets and secure improved market access. In goods, our priorities include passenger motor vehicles and automotive parts, horticulture, metals and a range of agricultural products. In services, Australia is seeking outcomes that improve substantially on most ASEAN countries' WTO commitments. Sectors of specific interest include professional services, financial services, telecommunications and education.

AANZFTA will complement existing bilateral trade agreements (including with Singapore and Thailand), and the outcome of current bilateral negotiations with Malaysia, by securing regional commitments. For example, under AANZFTA, Australian business stands to benefit from cumulative rules of origin that would allow Australian products to be more readily integrated into regional production chains.

Negotiations have, so far, been challenging — reflecting the diverse economic circumstances and broad range of interests of the participating countries. However, continued progress was made in the three full rounds of negotiations and several inter-sessional meetings held in 2006. Discussions have now intensified and moved to focusing on market access negotiations. Australia continues to provide technical assistance to build ASEAN's negotiating capacity and in 2006 held a range of workshops on issues such as rules of origin, tariff and trade data analysis, services, investment and intellectual property.

2 Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

ASEAN: A Growing Market for Australia

ASEAN's commitment to build an economic community among its 10 members by 2015 raises the prospect of a single market emerging on Australia's doorstep with a combined population of 567 million, and total GDP of more than US\$1.0 trillion — and growing.

As a group, the ASEAN countries are already significant economic partners for Australia. ASEAN is a larger trading partner for Australia (accounting for 16 per cent of our total two-way trade in 2006) than any single country, including Japan (13 per cent), China (12 per cent) or the United States (11 per cent). In contrast, Australia's investment links with ASEAN are relatively small. Australia's total stock of foreign direct investment (FDI) in ASEAN in 2005 was around 3 per cent of Australia's outward FDI stocks.

Negotiations for an ASEAN–Australia–New Zealand Free Trade Agreement are aimed at delivering market access gains of real commercial benefit to Australian exporters and investors, and strengthening Australia's economic and strategic engagement with ASEAN.

Malaysia–Australia Free Trade Agreement Negotiations

Agreement to launch negotiations on a bilateral FTA between Australia and Malaysia was reached on 7 April 2005. An FTA with Malaysia offers the prospect of improving an already strong trading relationship.

The Government is seeking to achieve a comprehensive, high-quality FTA with Malaysia. While Malaysia's tariffs are generally low, there are a number of barriers to trade that an FTA can address. Negotiations aim to eliminate and bind tariffs and address other barriers on the broadest possible basis. Both parties have agreed on an approach to rules of origin, based on change-in-tariff-classification, which will facilitate greater bilateral trade.

The Government is seeking to promote greater transparency of investment rules and certainty in decision-making. On intellectual property, the Government aims for practical provisions to assist Australian holders of intellectual property to effectively protect and enforce their rights. Steady advances have been made towards narrowing differences in both areas.

The services negotiations are proceeding slowly due to differences in approach. Services are becoming increasingly important to the Malaysian economy and now account for around 60 per cent of its GDP. Liberalising services trade would deliver significant benefits to both economies and the Australian Government is seeking to reduce impediments on the broadest basis practicable.

FTA Negotiations with the Gulf Cooperation Council

The Australian Government held preparatory FTA discussions with the countries of the Gulf Cooperation Council (GCC) in May 2007, and expects to hold the first substantive round of negotiations in Australia in July 2007. The GCC comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The FTA negotiations follow the decision in 2006 by the United Arab Emirates that bilateral negotiations already under way with Australia be incorporated into GCC-wide negotiations.

A comprehensive FTA will benefit Australia by eliminating tariff and other barriers to trade and addressing impediments to trade in services and investment flows. Through an FTA, the Government will seek other improvements in the business and regulatory environment, including addressing customs procedures, trade facilitation, government procurement practices, intellectual property protection, transparency and competition policy.

In 2006, the GCC imported more than \$5.2 billion of Australian merchandise, representing a growth of 28 per cent over the year. The GCC is by far Australia's largest export market for passenger motor vehicles (see box next page). The GCC is also an important market for Australian meat, livestock and dairy product exports. In 2006, it took 32 per cent of our total live animal exports and around 10 per cent of our non-beef exports. Including beef exports, the sector generated combined export earnings of about \$516 million.

Australia also has increasing interests in the GCC in services. The strength of GCC economies is creating opportunities for increased exports of Australian construction, education, training, health and other professional and business services.



Minister Truss with Saudi Minister for Commerce and Industry, Dr. Hashem Al-Yamani.

GCC and ASEAN – Opportunities for Automotive Trade

There are significant opportunities for Australia to benefit through increased trade in the automotive sector through FTAs with the GCC and ASEAN. Through FTAs, many of the tariffs holding back this trade can be eliminated. FTAs can also address other barriers, including import licensing, discriminatory or differential excise taxes, local content requirements and restrictive distribution arrangements.

The GCC is by far our largest automotive export market. The GCC imports an estimated one million vehicles a year. In 2006, Australia supplied around 10 per cent of the GCC market. This was equivalent to 69 per cent of Australia's global vehicle exports, valued at \$2.2 billion, compared with \$129 million in 1996.

Removing the GCC's 5 per cent tariff on motor vehicles through an FTA would ensure at least equal footing for Australia with other motor vehicle producing countries that are competing, or expecting to compete, in the GCC market. These include producers from the European Union, the United States, Japan and China, all of which are looking to develop closer economic links with the GCC, including by negotiating FTAs.

The demand for new vehicles in ASEAN is currently over two million vehicles a year. A growing population and rising incomes suggests strong potential for further expansion. For Australia, the market is around one million vehicles a year, making a combined regional market of more than three million vehicles a year. It is a natural fit, with Australia producing large cars, and ASEAN countries specialising in smaller cars and commercial vehicles. Australia's competitive position will be improved by an FTA, increasing opportunities to expand markets for both fully assembled passenger motor vehicles and auto parts.

The Australian and ASEAN automotive industries complement each other in various ways. ASEAN's strengths are low labour costs and a larger and growing market. Australia's strengths are in product development capability and high-end components and services. An FTA would increase the potential for trade from greater specialisation in the automotive components industries for both Australia and ASEAN. Australian component suppliers would benefit from cumulative rules of origin that would allow their product to be more readily integrated into regional production chains.



Holden and Toyota
in the Middle East.



Australia—Chile Bilateral Negotiation Process Under Way

Two-way goods and services trade between Australia and Chile amounted to \$574 million in 2006. Though from a moderate base, trade increased 35 per cent over 2006 and growth has averaged 12 per cent per annum over the past five years.

On 8 December 2006, the Australian Government agreed in principle to commence a bilateral negotiation process with Chile, with a view to developing a comprehensive FTA. The initial stage of the process includes working-level bilateral meetings and consultations with other Ministers, the states and territories, relevant industry groups and stakeholders to ensure that all views are taken into account.

The potential for Australian export growth in Chile has been constrained by Chile's existing FTAs and other preferential arrangements with more than 50 countries.³ While Chile's existing trade and investment barriers are quite low, significant protection exists in parts of its agriculture sector, as well as in some areas of services trade and government procurement markets.

Australia—Korea Joint FTA Study

On 6 December 2006, Minister Truss announced that Australia and the Republic of Korea (ROK) had agreed to conduct a joint study on a possible FTA. The study will be conducted by private research institutions in both countries and will conclude in late 2007, when senior officials will review its findings and make recommendations to respective governments.

Negotiating an FTA with the Republic of Korea remains a priority for the Australian Government.

The successful conclusion of FTA negotiations between the ROK and the United States on 1 April 2007 underlines the importance for Australia of moving as soon as possible to the commencement of negotiations with the ROK. The United States is a competitor in the Korean market for Australian agricultural exports, worth some \$1.4 billion in 2006.

Australia and the ROK continued to share a strong and highly complementary trading relationship, with total bilateral trade reaching a record \$21.3 billion in 2006. The ROK was Australia's third-largest merchandise export market in 2006, and was Australia's fourth-largest merchandise trading partner. Australia's exports to the ROK grew by 12.6 per cent in 2006 to \$13.9 billion. Coal remains the largest export, with sales of over \$1.9 billion in 2006. Other major exports included crude petroleum, iron ore, beef and aluminium. New areas of trade such as education and transportation services also increased very strongly in 2006. Australian imports from the ROK totalled \$7.3 billion in 2006, with major items including automobiles, refined petroleum, telecommunications equipment and televisions.

³ These include the United States, the European Union, Japan, the ROK, China, Canada and New Zealand.

Austrade and the **Australian Wine and Brandy Corporation** (AWBC) have been working together on a range of projects to create a target market for Australian wine exporters in the Republic of Korea.

In their first joint project, Austrade and AWBC translated the Wine Australia brand information on AWBC's wine promotion website — wineaustralia.com.au — into Korean. The *Wine Australia* brand CD was also translated. With over 200 pages of regional and varietal information available, Koreans can learn about Australian wine in their own language at the click of a button or by viewing the CD.

Austrade held a joint media and wine industry launch with the AWBC to promote Australian wine, the brand, the interactive CD and the new Korean website. The Republic of Korea is an emerging market for the Australian wine industry. Austrade will continue to work jointly with AWBC to host major events every six months, including the inaugural 'Wine Australia Trade Tasting' in June 2007, servicing an Australian wine importers network.



Australia–Mexico Joint Experts Group

Mexico was Australia's second-largest trading partner in Latin America in 2006, with two-way trade worth \$2 billion.

In March 2006, Australia and Mexico agreed to establish a Joint Experts Group to investigate ways to strengthen economic relations, including the possibility of negotiating an FTA some time in the future. It is hoped that a joint report will be completed before the end of 2007.

A study undertaken by the Department of Foreign Affairs and Trade concludes that Australia would benefit substantially from closer economic relations with Mexico. An FTA would boost trade in products that are currently subject to tariffs and non-tariff measures, including agricultural commodities, processed foods, wine and mining technology. Rules on government procurement affect Australian trade in energy-related services while education and training services are hindered by recognition of the rules governing academic qualifications and professional experience. Investment flows are currently limited by sectoral regulations and caps on foreign investment.

Mexico: A Key Component in Securrency's Global Strategy

Securrency is Australia's world leader in the production of polymer substrate for polymer banknotes and government security documentation. Polymer banknotes are more durable than paper notes, and contain advanced security features that decrease the risk of counterfeiting.

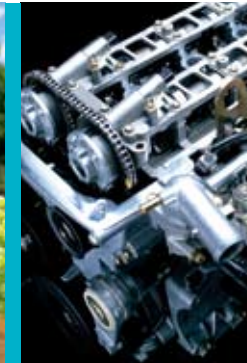
On 26 January 2007, Securrency signed an MOU with the Banco de Mexico to progress the establishment of a Polymer Substrate Security plant in Mexico. Mexico is the twenty-fourth country to use polymer banknotes, having recently issued the 50 Peso banknotes on Securrency's polymer substrate.

This \$30 million deal is a critical component of Securrency's global and Latin American strategies. Securrency expects the new facility in Mexico will help service global demand. The new facility will be in addition to Securrency's plant in Craigieburn, Victoria.

Australia produced its first polymer banknote in 1988. By 1996 all Australian banknotes were polymer. In that year the Reserve Bank of Australia set up Securrency as a joint venture with Innovia Films (UK) to market the polymer banknote substrate and related technologies.

9

Building Markets Around the World



Building Markets Around the World

- Trade with the European Union continues to expand. The Government is focusing on improved access for our agricultural exports and the facilitation of trade in manufactured products and services.
- Australia's trade and economic ties with India have been strengthened through high-level Ministerial visits and the signing of a Trade and Economic Framework to enhance economic cooperation with India in key sectors.
- Growth in trade with Indonesia, South Africa, Brazil and Russia has been supported by strengthened bilateral trade and economic ties.
- In the Pacific, the Government stands ready to begin preparations for the negotiation of a comprehensive trade and economic agreement with the Pacific Islands Forum countries.

European Union

The European Union⁴ (EU) is Australia's largest trade partner when taken as a single entity. Australia's exports to the EU rose by 25 per cent to \$28.6 billion in 2006.

In the past five years, commodity exports such as coal, gold, iron ore, nickel and other ores have all increased strongly, reflecting higher prices. Europe is also now a major market for Australian wine and medicines. Services, including tourism exports, were also strong.

The United Kingdom is our most prominent export market in the EU. Exports to the United Kingdom grew by 36.7 per cent in 2006 to reach \$12.7 billion. Exports to the Netherlands and Spain also grew strongly. Australia's exports to the emerging markets of Central European EU-member countries increased by 20.9 per cent to \$186 million in 2006. Australia's largest export markets in this group are the Czech Republic and Poland.

An expanding and increasingly integrated EU is beneficial for Australian exporters as they can increase the scope of their operations in the large EU market while remaining subject to a single set of trade rules.

A key objective for the Government is to improve our market access to the EU for key commodities such as sheepmeat, beef, dairy and sugar. We will also keep pushing for further reform of the EU Common Agricultural Policy. Australia works towards these objectives in the Doha Round of multilateral negotiations, and through bilateral

4 Member countries are: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.



The Australian owners of an innovative hot food-vending technology are making their first-ever export deal with a Latvian-based customer. **Hankers'** Executive Chairman David King said: 'Finding the right partner in Central and Eastern Europe is the best way to penetrate the international market. Now our technology can spread throughout Europe, the UK and Russia'.

Austrade's New Exporter Development Program facilitated Hankers' initial contact with their Latvian-based customer and assisted with a buyer visit to Australia.

dialogue with the EU, including under the Australia–EU Trade Policy Dialogue and the Australia–EU Agricultural Trade Marketing Experts Group.

High-level bilateral discussions with the United Kingdom, France and Germany provide another mechanism to address trade issues. In the past 12 months, the Government has held discussions with Germany focusing on energy trade issues, including renewables, nuclear power and clean coal technology, and with France on increasing access of Australian sheepmeat into the French market.

The Government is also negotiating a streamlining of the Australia–EC Mutual Recognition Agreement (MRA) on Conformity Assessment to help reduce non-tariff barriers to trade. The MRA, signed in June 1998, simplifies the export process by enabling exporters to undertake conformity assessment (compliance with safety and quality assurance standards) in their home country. This avoids the time delays and costs associated with obtaining regulatory approval in the importing country.

The MRA covers standards in key manufacturing sectors such as automotive products, electrical equipment, telecommunications equipment, medical devices and pharmaceuticals. Bilateral negotiations with the EC to simplify the operation of the MRA and to remove its existing origin restrictions are expected to be completed this year.

Two-way investment flows between Australia and the EU continue to grow. The EU is Australia's largest foreign investor with investments in Australia totalling almost \$412 billion at the end of 2005.

Investment from the EU has benefited the Australian economy by creating jobs in Australia, by encouraging faster uptake of technology and by supporting export growth, including back to Europe. For example, there are now around 300 companies in Australia with French equity employing around 70,000 people. Jacobs Creek wine — now exported to more than 60 countries around the world and the top-selling

Australian wine brand in the United Kingdom — is distributed worldwide by a subsidiary of the French wine and spirits group Pernod-Ricard. Robert Bosch Australia, a subsidiary of the German-based Bosch group, has been manufacturing in Australia for more than 50 years, and is now a major exporter of automotive parts, including to Europe.

Australian investment in the EU totalled almost \$196 billion at the end of 2005, making it our second-largest destination for investment abroad. Our largest investments were in the United Kingdom, the Netherlands, Germany and France.

India

Rapid economic growth in India has driven a strong increase in resource exports from Australia. India was our fastest-growing major export market over the past five years, with exports reaching \$10.3 billion in 2006, an increase of 25.9 per cent above 2005. Key exports are gold (\$3.6 billion), coal (\$2.6 billion), copper ores (\$1.0 billion) and education (more than \$1 billion). India is now our seventh-largest export market.

India's Services Sector: Unlocking Opportunity

Unlike other rapidly growing economies in Asia, which have been driven by the expansion of manufacturing, India's growth has been based on its export-oriented services sector. IT and IT-enabled services, in particular, have boomed, with exports growing at a compound annual rate above 20 per cent for the past six years. This success is driving broader changes throughout the Indian economy.

Opportunities for Australian involvement in the Indian economy will multiply as the economy modernises, and as growth creates pressure and momentum for further reform and opening of the economy.

Australian businesses are already achieving success in India, including SMEC International and IBA Health which are providing IT-based solutions for resource management and hospitals respectively; project developer Leighton, meeting infrastructure needs in areas of rail and plant construction; Macquarie Bank's involvement in financial services provision through its securities business; and AXA Asia Pacific's joint venture with an Indian company to provide life insurance.

A report by the Department of Foreign Affairs and Trade's Economic Analytical Unit (www.dfat.gov.au/eau) highlights that opportunities for Australian companies in India's services sector extend well beyond IT and IT enabled services. It also stresses the need for new entrants to the market to calibrate their expectations carefully and take a long-term view if they are to capitalise fully on India's growth.

The Government is working to build stronger bilateral ties for the growing commercial relationship. Prime Minister John Howard signed a Trade and Economic Framework during his March 2006 visit to India, as well as a new air services agreement and a customs MOU.

The Trade and Economic Framework promotes economic cooperation in industry sectors, such as energy and mining, infrastructure development and financing, information and communications technology, and food and beverages. In early 2007, Minister Truss led a delegation representing more than 50 Australian companies to India to promote Australian exports in these and other sectors.

Minister Truss also launched a major three-year promotional campaign involving activities across India entitled 'Utsav (Celebrate) Australia' to heighten awareness and interest among India's business community of Australia's export and investment capabilities. A study on the potential for commercial collaboration on food processing was also announced.

Energy and resources trade is a significant element in the bilateral trade relationship with India. During Minister Truss' visit, a major exploration contract was signed between Australian oil and gas company Santos and the Indian Government. Australian companies are also playing an increasing role in the development of India's oil and gas infrastructure. Australian company Arrow Energy's coal-bed methane technology is now being deployed in India.



Minister Truss opening the Australian Consulate-General Chennai.

The Government continues to assist Australian businesses in India, most recently by opening an Australian Consulate-General in Chennai and increasing Austrade's representation in India's commercial centres to further promote and support Australia's business potential.

Tourism Australia will establish a new office in Mumbai during 2007. Australia is currently the second most popular destination for Indians seeking overseas

education (with more than 39,000 Indian enrolments in Australia in 2006). Invest Australia will also promote investment into Australia from new offices in Mumbai and Delhi.

Indonesia

There has been significant growth in trade between Australia and Indonesia since the signing of the Trade and Investment Framework (TIF) in 2005. Australia's two-way trade with Indonesia grew by 15.4 per cent in 2006, to reach \$10.4 billion.

The TIF's Action Agenda has increased cooperation in a range of areas, including closer dialogue on trade policy issues, and building closer ties between small and medium-sized enterprises in both countries.

The TIF's inaugural Policy Dialogue, in August 2006, brought policy experts and the business community together to discuss issues affecting business in Australia and Indonesia, with a particular emphasis on opportunities in the resources and infrastructure sectors. Australian business participation in the Infrastructure Conference in Jakarta in November 2006 further reflected Australian interest in this sector.

At the annual Trade Ministers' Meeting in August 2006, the implementation of the TIF was reviewed and Australia and Indonesia established an Experts Group to explore ways in which the bilateral trade and investment relationship could be strengthened further into the future. The Experts Group met in May 2007.

Indonesia is a major market for exports of education services with more than 15,000 enrolments in Australian education institutions in 2006. The Australian Government has held seven education exhibitions in Indonesia to showcase Australia as an education destination since November 2006.

The Indonesian Government's commitment to economic reform should provide further opportunities for growth in trade and investment and Australia is providing support to reform efforts. Under the TIF, Australia has assisted Indonesia through capacity building and provision of technical advice on trade and investment issues.

South Africa

South Africa is by far Australia's largest trading partner on the African continent. Over the past five years, Australian exports have grown by 11.9 per cent per year and totalled \$2.5 billion in 2006.

Growth in Australian exports reflects South Africa's size, sophistication and economic growth. The near-term growth outlook for South Africa remains favourable as a result of sound macro-economic management. Major Australian exports to South Africa include medicines, alumina, coal, crude oil and passenger motor vehicles. South Africa is also a significant services trade partner for Australia, with two-way trade of \$564 million dominated by tourism and business travel on both sides.

The Australian and South African Governments are advancing the trade and economic relationship through periodic meetings of the Joint Ministerial Commission (JMC). At the October 2006 JMC, Trade Ministers discussed market access issues,



Minister Truss with South African Minister for Trade and Industry Mandisi Mphahlela.

including expanding red meat exports, particularly the sheepmeat sector. Ministers also committed to resolving market access issues as they arise. The JMC also involved representatives from mining, services, agribusiness and manufacturing sectors and helped develop business-to-business links.

Two-way investment between Australia and South Africa has expanded since the end of apartheid. Australian investment stocks in South Africa were valued at \$512 million in 2005. The largest increases in investment were recorded in mining, mining equipment, agriculture, agribusiness and infrastructure and services trade. South Africa is our largest investment destination in Africa.

South Africa remains a significant source of foreign investment in Australia, with investments valued at \$1.4 billion in 2005. The largest investments are mainly in food and other consumables distribution and retail, and include household names such as IGA, Franklins and Country Road.

Brazil

Brazil was Australia's largest merchandise export market in Latin America in 2006 with exports reaching \$892 million — a 122 per cent increase since 2002.

Australia's major exports are coal, nickel and medicines. Machinery and medical equipment exports have also become significant in recent years. Major imports include animal feed, pig iron and paper.

Australian education exports to Brazil are growing steadily, with more than 10,000 Brazilian enrolments at Australian institutions in 2006, representing a doubling in enrolments since 2004.

Opportunities for Australian businesses exist in areas such as information technology, biotechnology, rail and sea transportation, telecommunications, and banking and insurance.

Brazil is one of the world's largest ethanol producers and views Australia as a natural partner in global ethanol production and marketing. Brazil maintains ongoing dialogue with various Australian interlocutors, notably the Queensland Government and sugar industry representatives.

While mining is a major focus of Australia's investment portfolio in Brazil, our investment profile also includes agribusiness, services and information technology. Total investment is currently estimated at around \$1.8 billion.

Large and small Australian exploration, mining and service companies are increasingly taking advantage of opportunities in the Brazilian market. In January 2006, GRD Minproc was awarded a \$1.6 billion engineering, procurement and construction management contract from Brazilian mining giant CVRD at its Niquel do Vermelho project in the northern Brazilian state of Para.

Russian Federation

The rapid growth in recent years of Russia's resource-rich economy has seen our exports to Russia increase by 87 per cent in 2006 to \$722 million, following an increase of 67 per cent in 2005.

Russia is a growing market for our traditional agricultural exports such as beef, raw hides, skins and butter. It is our largest export market for kangaroo meat. Opportunities are emerging for specialist professional services in the mining sector.

Rising Russian incomes also mean that demand is expanding to include a broader range of goods and services, ranging from wine and processed food to medical equipment, tourism and education.

In June 2006, the Australian Government signed a bilateral market access agreement as part of Russia's negotiations for accession to the WTO. The agreement, when implemented, following Russia's WTO accession, will enhance Australia's access to the Russian wine market, which has grown around 20 per cent annually in recent years, and the wool, seafood, alumina, minerals, mining software and services markets.

The Government is also negotiating with Russia an Investment Protection and Promotion Agreement, a Nuclear Cooperation Agreement, and a Veterinary Agreement that aims to facilitate increased access for Australian meat exports.

In 2006, two of Australia's largest resources companies, BHP Billiton and Rio Tinto, independently announced joint exploration and development ventures with Norilsk Nickel, Russia's largest mining company. The Australian Embassy and Austrade teams in Moscow worked closely with the companies, providing advice and support. The first major Russian investment in Australia occurred in 2005, with a \$508 million investment by Rusal (Russian Aluminium) in Queensland Alumina.

The strengthening of the Russian economy has enabled the Russian Government to repay its outstanding Paris Club debts. The Paris Club is an informal group of 19 creditor countries, including Australia. Australia received a total early repayment of US\$312 million over 2005 and 2006.

Pacific Islands

Australia is the Pacific islands' major trading partner. Australian banking, trading, mining, travel and tourism, and legal service providers play an important role in the region.

Small markets, remote islands, long distances, trade barriers, governance issues and a sometimes difficult investment environment challenge businesses that seek to trade with the Pacific. Nevertheless, Australia increased trade with Pacific island countries, including French territories, by 10 per cent to reach \$7 billion in 2006. Total exports to Pacific island countries reached \$3.1 billion in 2006.

Security and governance issues have had a profound negative impact on Pacific trade activities. The December 2006 Fiji coup and subsequent political uncertainty have adversely affected the tourist industry. Continuing difficulties in Solomon Islands and civil unrest in Tonga have hindered economic development and trade flows.

Through its bilateral programs, and the region-wide Pacific Plan, Australia is working with the Pacific Island Forum countries to build good governance, sustainable development and respect for democracy and human rights. The Pacific Plan, and its vision of strengthened regionalism, is a significant strategic and practical investment by Australia in boosting Pacific economic development and trade. Australia is also working bilaterally, through technical assistance to a number of governments in the region, to help the Pacific island countries with their own trade liberalisation and economic reform.

In 2007, the Australian Government will prepare for the negotiation of a comprehensive trade and economic agreement between Australia–New Zealand and Pacific Islands Forum countries⁵ ('PACER Plus'). The negotiations are expected to begin in 2008. The objective of the negotiations is to establish a framework for the gradual trade and economic integration of all 16 Forum members. Such an agreement will also safeguard Australian trade interests if Forum Island countries

5 Forum members are Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

negotiate free trade agreements with other developed countries (such as those currently underway with the European Union). We expect PACER Plus negotiations to last a number of years.

Investing in the South Pacific — Australia's Pacific Investment Commissioner

Companies in Australia and the Pacific are benefiting from the appointment in August 2006 of Bob Carmichael (pictured far left) as the Australian Government's first Pacific Investment Commissioner.

This new position, a joint initiative of AusAID and Austrade, facilitates new sustainable Australian private sector investment projects throughout the South Pacific, and complements the broader framework of the Australian Government's White Paper on Aid.



The Commissioner helps Australian companies to identify and progress joint ventures and commercial partnerships in PNG, Fiji, Solomon Islands, Vanuatu, Samoa, Tonga, Kiribati, Cook Islands, Tuvalu, Nauru and New Caledonia.

The Commissioner currently has a portfolio of 20 projects in five developing Pacific island countries.

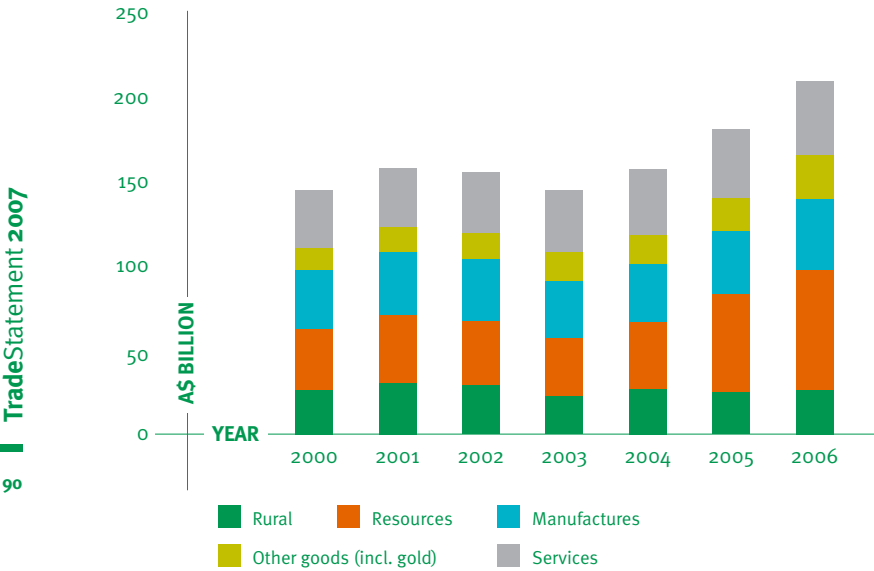
Annex: A Snapshot of Australia's Trade



A Snapshot of Australia's Trade

Australia's exports were \$210 billion in 2006, reflecting a strong and diverse export base.

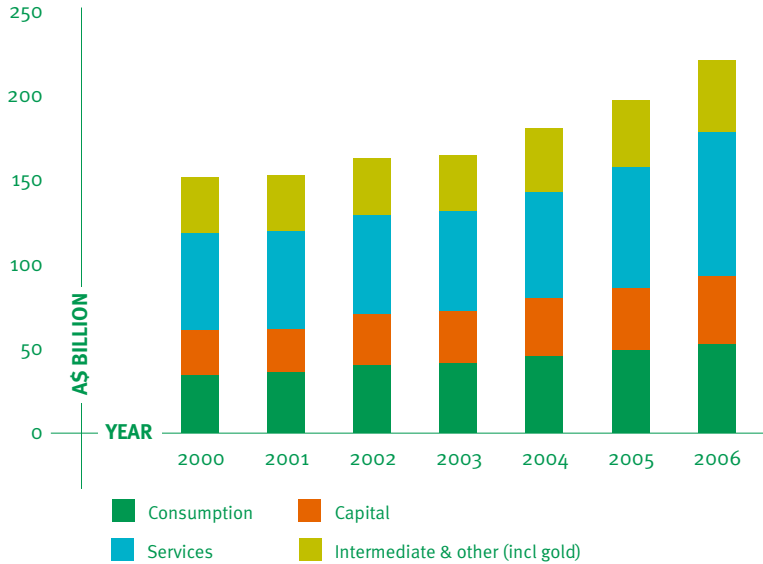
Growth in Exports — 2000 to 2006



Source: ABS Catalogue 5368.0

Import growth remains robust, reflecting continued strong growth in the Australian economy. Capital and intermediate goods accounted for more than half our total imports and add to our productive capacity.

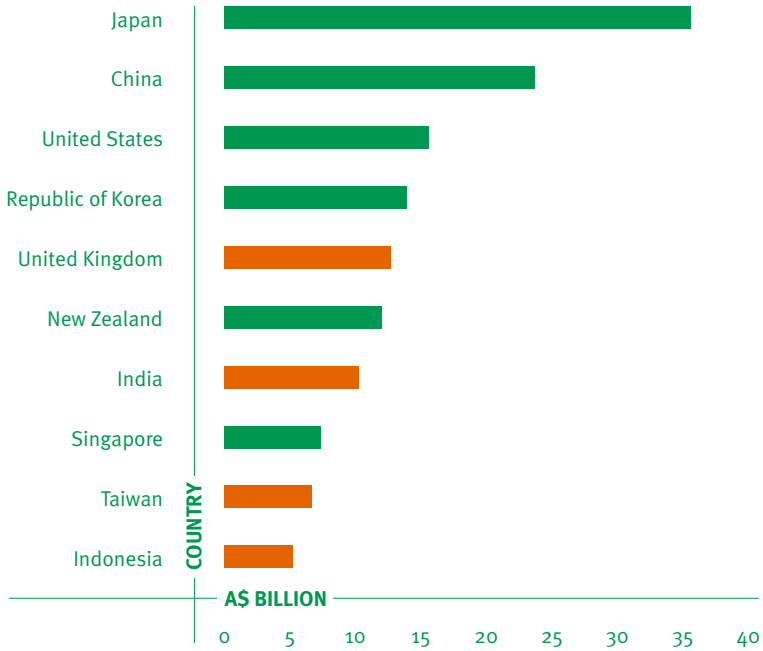
Growth in Imports — 2000 to 2006



Source: ABS Catalogue 5368.0

There are current or prospective FTAs with six of Australia's top ten export markets as well as with ASEAN.

Top 10 Export Markets 2006

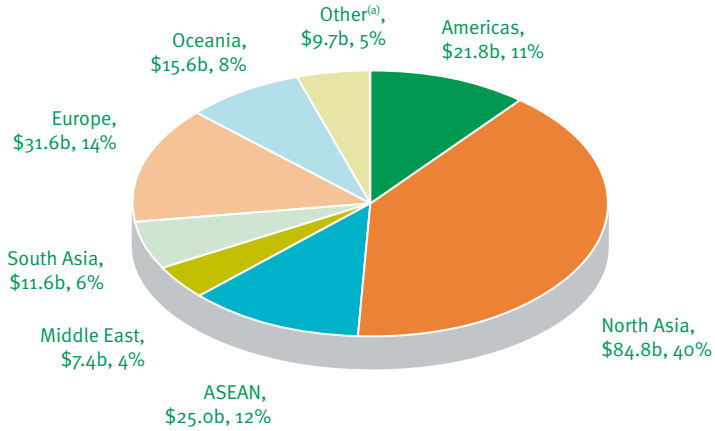


■ — Countries Australia has an FTA with, or is in the process of negotiating, or undertaking a study on a possible FTA (Australia and the Republic of Korea have agreed to conduct a joint non-government study on a possible free trade agreement). Indonesia is a member of ASEAN.

Source: DFAT STARS Database and ABS Catalogue 5368.0

Australia exports around the world.

Export Regions 2006

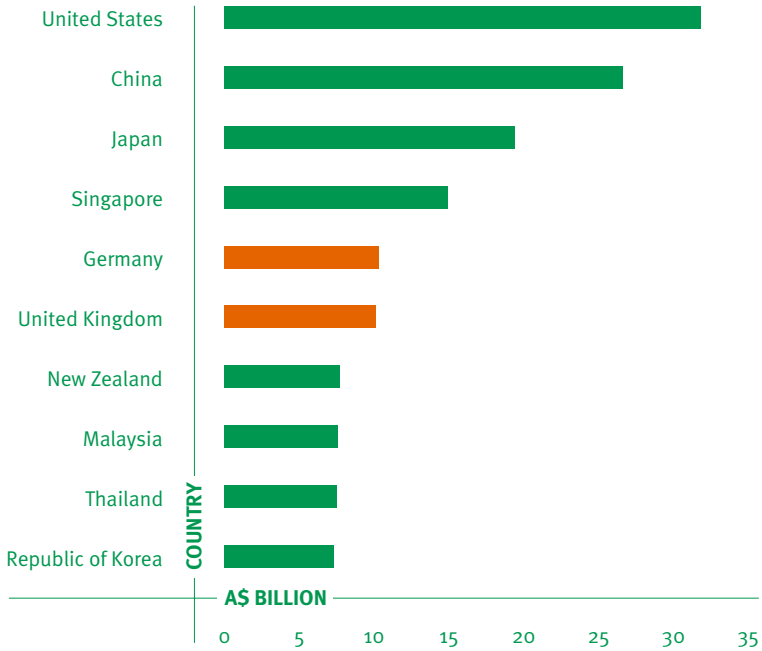


(a) Includes Africa \$4.4b, 2%, and confidential items.

Source: DFAT STARS Database and ABS Catalogue 5368.0

There are current or prospective FTAs with eight of Australia's top ten import sources.

Top 10 Import Sources 2006

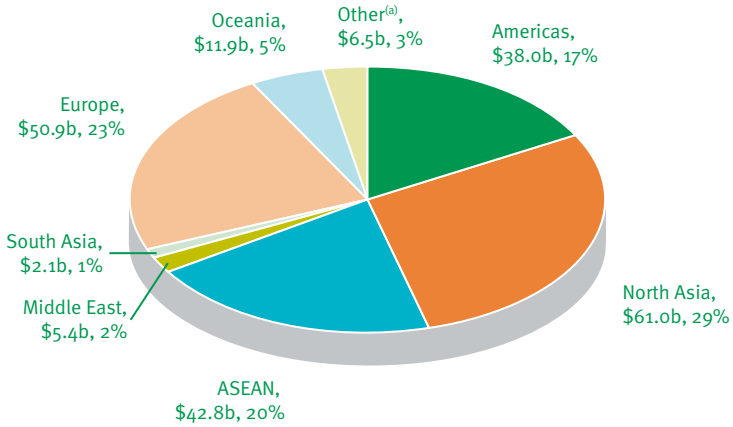


■ — Countries Australia has an FTA with, or is in the process of negotiating, or undertaking a study on a possible FTA (Australia and the Republic of Korea have agreed to conduct a joint non-government study on a possible free trade agreement).

Source: DFAT STARS Database and ABS Catalogue 5368.0

Australia imports from all over the world.

Import Regions 2006

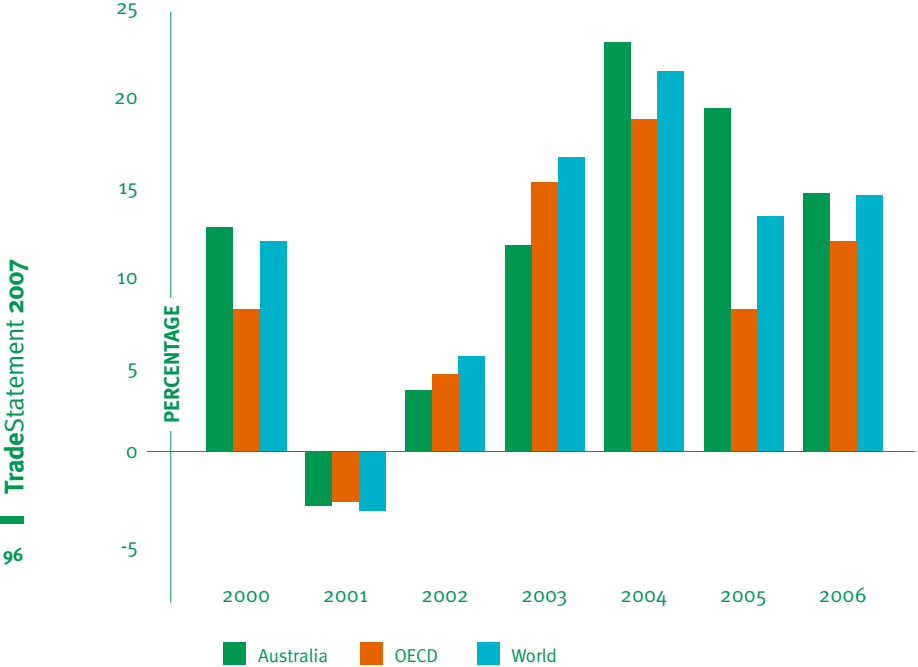


(a) Includes Africa \$2.4b, 1%, and confidential items.

Source: DFAT STARS Database and ABS Catalogue 5368.0

Australia's exports have recovered from a slump in the early part of the decade and are now growing more quickly than those of other OECD countries and in line with the rest of the world.

Growth in Exports — Australia and the World (\$US)



Source: WTO online database and ABS Catalogue 5368.0

