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Dear Peter

Thankyou for your letter of 23 February seeking input from AEEMA about possible issues to be covered in the joint non-government study into the feasibility of a free trade agreement with South Korea.

AEEMA members have been trading with South Korea for some time now, although the level of engagement is possibly not as high as with China. Nevertheless, there are important issues that some of them have brought to our attention and I am happy to now pass those on to you. We would be pleased if the joint study could ensure they are addressed. I should add at this stage that AEEMA enjoys close alliance relationships with similar organisations in Korea such as the Korean Information Security Industry Association (KISA), the Korean Electrical Manufacturers Association (KOEMA) and the International Cooperation Agency for Korean IT (ICA Korea). In addition, Korea is a key target under the Electronics Industry Action Agenda.

As a preliminary observation it is clear that after a long period of bilateral trade, including beef, energy resources and education, the shared strategic values and political relations between Australia and Korea, should ensure some complementarity between the two economies such that fundamentals of the negotiating process should not be as difficult as with some other nations.

AEEMA's members manufacture and supply a wide range of electrical equipment, including power and distribution transformers, electrical switchgear, wire and cable, pole top equipment, domestic appliances, electrical accessories, lighting, rotating electric machines and electrical equipment for hazardous locations. AEEMA's various Electrical Division Forums work closely with electrical safety, energy efficiency and water efficiency regulators. It is AEEMA's experience that some Korean companies disregard, or seek to circumvent, Australia's regulatory requirements. In one recent example, a member has brought to our attention an incorrectly labelled washing machine manufactured by a Korean company for which taxpayer-funded water rebates were claimed and granted. AEEMA is also aware that several international whitegoods manufacturers have intellectual property infringement claims against Korean companies.

However, Korea's sensitivity in relation to key market sectors such as agriculture and resources may be used as leverage to force exclusions or carve-outs in 'trade-off' sectors, the impact of which will not be in Australia's favour commercially. In South Korean politics the agricultural sector wields power disproportionate to its contribution to the economy. If services, high merchandise tariffs or investment are traded off to meet Korea's sensitivity, Australian industry will inevitably be disillusioned with the outcome, as it was with the AUSFTA for similar reasons. A key principle of the negotiations should be to deliver equivalent market access and treatment between the two markets. When this does not occur (as with the AUSFTA) it becomes increasingly difficult to convince industry that liberalised trade policies will deliver more opportunities than threats. This is especially the case where it

is clear that Australia has one of the most open economies in the world, with average tariffs of around 3.5%, while many of our trading partners maintain high tariff and non-tariff protection.

There are indications that the future of the trade relationship with Korea may be changing. The South Korean economy is currently transforming from an industrial base to a knowledge intensive services base. Accordingly, the demand for raw material inputs to industry that currently dominate the trade relationship, may grow at less than the current rates and may eventually decline. In addition, if regional competition or strategic relationship issues with the US are the reasons for Korea's willingness to enter into an FTA with Australia, it will become obvious that sound commercial outcomes from the final Agreement may not be Korea's only objective. Trade diversion implications arising from a regional 'spaghetti bowl' of FTA's is a reasonable concern, but liberalised access to trade markets should be the overriding objective of any trade negotiation.

Preferential treatment granted to home-grown solutions for government markets is a key barrier which is frequently overlooked by negotiators. In order to garner industry support for more liberalised trade platforms, especially with Asian trading partners, it is essential that the Australian Government ensures genuine equivalence of treatment and access for Australian firms selling to the Korea government. If foreign firms are given the same access as our firms to the Australian market, Australia must insist on the same treatment in the partner market.

Intellectual property protection remains a high priority to ensure appropriate protection is afforded under the final FTA and not compromised by trade-offs to meet Korean sensitivities in other sectors. To that end AEEMA encourages the objective of a TRIPS-plus approach to intellectual property protection, which will have the added benefit of sending a strong message to other regional nations who do not have such standards of protection.

Non-tariff trade barriers such as standards and conformance testing, as well as 'behind the border' barriers or hidden, informal and non-transparent barriers in the domestic enactments of Korea must be examined as part of the FTA negotiations. From the perspective of many of our members these issues serve to significantly undermine FTA objectives of equal access and treatment, if they are left un-addressed.

While AEEMA is supportive of further liberalised trade, it must be said that our members remain concerned that too rapid a liberalisation, without a phased adjustment period, may result in disruption to the manufacturing sector and capacity 'hollowing out'. Adjustment by industry to that competition is possible, but only if supported by an unwavering government program to pursue regional and bilateral negotiations that secure equal market access without carve-outs, and which address the full range of non-tariff barriers currently preventing or limiting fair market access.

I trust these issues will assist you to frame the joint study appropriately. Please don't hesitate to call me if you require further input.

Yours sincerely



Angus M Robinson
Chief Executive