



9 February 2009

Mr Tim Yeend
First Assistant Secretary
Office of Trade Negotiations
Department of Foreign Affairs and Trade
RG Casey Building
John McEwen Crescent
BARTON ACT 0221

Handwritten signature: Ric Wells

H M Ridout
Chief Executive

The Australian Industry Group
ABN 76 369 958 788
51 Walker Street
North Sydney NSW 2060
PO Box 289
North Sydney NSW 2059

Tel: 02 9466 5566
Fax: 02 02 9466 5599
www.aigroup.asn.au

Dear Mr Yeend

The Australian Industry Group welcomes this opportunity to provide comment on Australian consideration to commence negotiations on a free trade agreement (FTA) with the Republic of Korea.

Ai Group supports the Federal Government's proposal to commence negotiations on an Australia-Korea FTA that is able to deliver clear benefits to Australian industry. With the continued stalling of the Doha Round of the World Trade Organization talks, it is important that Australia continues to seek to broaden its market access with our key trading partners through comprehensive bilateral free trade agreements.

At this time of global economic turmoil, it is also critical that industry gains unimpeded access to export markets, and furthermore, that this access provides Australia with competitive positioning in the complex system of international trade agreements.

The Republic of Korea (ROK) is Australia's fourth-largest export market, and sixth-largest overall trading partner. Australia's goods and services exports to Korea were worth \$15.3b in 2007, and total two-way trade was \$21.8b in 2007. Resource commodities such as energy and mineral products, together with simply-transformed metals like aluminium and copper, now account for approximately two-thirds of Australian merchandise exports to Korea.

In addition to strong and growing merchandise trade links, tourism and education exports to Korea have increased strongly in recent years, and investment links are expanding.

In 2007, top exports included crude petroleum (\$2.4b), iron ore (\$1.8b), coal (\$1.6b) and beef (\$804m). Although primary commodities feature greatly in the bilateral relationship, trade is also important across a range of industries, including automotive products, biotechnology, building and construction, dairy products, defence materiel, fruit and vegetables, information and communications technology, seafood, textiles and clothing and wine.

The major exports of manufactures from Australia to ROK in 2006 were automotive engines (\$304m) and pharmaceutical products (\$200m). Exports of other motor vehicle parts and accessories, certain iron and steel products, chemicals and electronic equipment were also significant. Wine exports were in excess of \$9m.

We note that passenger motor vehicles and telecommunications equipment are Australia's largest import items from Korea.

The breadth of the existing trade relationship between Australia and Korea highlights the necessity of an agreement which is comprehensive in nature, and covers all sectors of trade, services and investment.

An agreement must deliver a balance of benefits that is in Australian industry's favour, and deliver Australia a competitive advantage, or at the very least, equal rights to other countries with preferential access to the Korean market.

Liberalisation of bilateral trade and investment under a comprehensive Australia-Korea FTA, in which trade barriers are reduced comprehensively, should, where appropriate, eliminate tariffs immediately on all but a minimum of sensitive items; to which transitional tariff reduction arrangements should be applied. Ai Group acknowledges that certain items within manufacturing will require a phased tariff reduction period.

Ongoing and extensive consultation with industry is necessary to provide a definitive list of items requiring transitional arrangement. Nonetheless, Ai Group analysis to date indicates transitional arrangements may be necessary for items such as certain TCF (textile, clothing and footwear), automotive, and machinery and equipment products.

Certainly the import sensitive industry sectors of automotive and TCF are currently dealing with restructuring in the face of unilateral tariff reduction (in line with Australian government policy) and may require phased tariff reduction. This does not preclude the possibility of zero-for-zero tariff arrangements being suitable on certain items within these manufacturing sub-sectors. Further, any margin of preference allocated by Australia on Korean goods on items with retained tariffs should be matched by Korea.

Australian tariff rates on passenger motor vehicles, their derivatives, original equipment components and replacement components will be reduced to 10% (from 15%) in 2005. They are set to be reduced to 5% in 2010, and remain at that level until (at least) 2015.

Liberalisation will be of benefit to Australian exporters with obvious gains to be made from reductions in Korean agricultural trade barriers, with the Australian agricultural sector benefiting from improved ROK market access in meat, dairy, grains, and sugar.

For example, Korea is the seventh largest export market for Australian pork, which is Korea's most consumed protein. By addressing existing Korean trade barriers, an Australian-Korea FTA could provide an opportunity to realise market access gains for Australian pork exports.

Beyond the agricultural sector, in a suitably comprehensive agreement, gains for Australian manufacturers could also be expected to arise from tariff reductions in areas where ROK tariffs are more modest, but the bilateral trade is growing and important, such as automotive engines, pharmaceutical products, chemicals and wine.

Ai Group looks forward to the announcement of the first round of negotiations, following the conclusion of the domestic consultation periods. These discussions will hopefully lead to as broad an agreement as possible, which would be welcomed by the business community. Industry leaders will watch developments with continued interest.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Heather Ridout', with a stylized flourish underneath.

Heather Ridout
Chief Executive