

Victorian Government Submission into the Australia – Republic of Korea Free Trade Agreement (FTA) Negotiations

1. Introduction

The Victorian Government welcomes the opportunity to provide input to the Department of Foreign Affairs and Trade (DFAT) on issues relevant to the negotiation of a Free Trade Agreement (FTA) between Australia and the Republic of Korea (ROK or Korea). The Victorian Government supports the Commonwealth Government's decision to enter into FTA negotiations with Korea and looks forward to a comprehensive FTA (i.e. covers all sectors of trade, services and investment) that provides increased opportunity for Victorian exporters in a market that is of significance to Victoria.

The Victorian Government is supportive of the Commonwealth Government's efforts to improve Australian industry's competitiveness in the global economy via trade liberalisation, and provides in-principle support for comprehensive FTAs that will provide a net benefit to Victorian industry and consumers, and that ensures increased market access for Victorian goods and services exports. This Submission reinforces some of the key points about FTAs that were outlined in the Victorian Government's Submission to the Commonwealth Government's Review of Export Policies and Programs, and raises some additional issues specific to Victoria's relationship with Korea.

2. Victoria and Korea Economic Relationship

Merchandise trade

In 2007-08 Korea was Victoria's 5th largest trading partner with total trade valued at \$2616 million. Victorian goods exports to Korea were valued at \$1194 million (5th largest export market) and imports from Korea amounted to \$1422 million (13th largest source of imports).¹ Victoria's main goods exports to Korea are aluminium, engines and automotive parts, liquefied propane and butane, and meat and dairy products. The major imports from Korea to Victoria are passenger motor vehicles, confidential items, telecommunications equipment and parts, refined petroleum, and consumer electrical equipment (e.g. monitors, projectors and TVs).

The Korean market is a 'market of interest' for Victorian exports in food and fibre. In 2007-08 exports to Korea were valued at \$201 million and accounted for 3 per cent of all Victoria's total food and fibre exports. Dairy and meat exports contributed to over 70 per cent of this value with grains also an important export commodity.²

Services trade

Korea is an important services export market for Victoria and there are increased opportunities for the Victorian services sector (e.g. financial services, legal and accounting) should the negotiations result in a comprehensive FTA.³ Korea is

¹ Victorian Government Department of Innovation, Industry & Regional Development, *Trade Fact Sheet – Korea FY2008*.

² Victorian Government Department of Primary Industries, *Victorian Food and Fibre Export Performance 2007-08 Financial Year*, 2008.

³ As identified in consultation with stakeholders and in the *Australia – Republic of Korea Free Trade Agreement Feasibility Study* prepared by ITS Global and the Korean Institute for International Economic Policy, April 2008.

Victoria's fifth largest source market for international education (a \$4.45 billion industry and Victoria's largest export) and has maintained a stable market share in recent years, accounting for 4 per cent of international students in Victoria between 2002 and 2008. Victoria accounted for 16 per cent of all Korean student enrolments in Australia over this same period.

In 2008 there were 5,983 Korean students enrolled in study in Victoria across all sectors (see Table 1). This represents 4 per cent growth over the previous year.

Table 1. 2008 Enrolments in Victoria from Korea by sector

Sector	2008	Share (%)
ELICOS	2,051	34
VET	1,681	28
Higher Education	1,084	18
Schools	1,008	17
Other	159	3
Total	5,983	

A number of Victorian post-secondary institutions have institutional relationships with Korean institutions. For example:

- **University of Melbourne** has formal university-level agreements with Pohang University of Science and Technology, Korea Advanced Institute of Science and Technology, Seoul National University, and Korea University;
- **Monash University** has student exchange programs with Korea, Kookmin, Seoul National, Sogang and Yonsei Universities; and
- **Victoria University** has student exchange agreements with Kyung Hee and Soonchunhyang Universities.

While not a top priority international market, Korea represents a Tier 2 market for Tourism Victoria and is an important market. Tourism Victoria statistics show that there were 38,676 Korean visitors to Victoria in 2008.⁴ This represents growth of 3.2 per cent from the previous year. Korean visitation to Victoria has increased by an average rate of 10.8 per cent per annum between 1999 and 2008.

3. Key Issues for Victoria

The Victorian Government has identified a range of issues that DFAT should consider as part of these FTA negotiations.

Timely conclusion to FTA negotiations

Notwithstanding the complexity of FTA negotiations, DFAT should ensure there is a timely conclusion to these negotiations. Korea has a number of FTAs already in force with others currently under consideration or negotiation. Chile already has favourable rates for horticulture and wine products under the Korea – Chile FTA that make it difficult for Victoria to compete. Furthermore, the competitiveness of Victorian agricultural exports is threatened by the Korea – United States FTA (KORUS). It is important that the FTA negotiations ensure Victorian exports are not disadvantaged by other FTAs. Lengthy negotiations also create uncertainty in planning for Victorian businesses; they need to understand the business environment in order to effectively plan any future engagement with the Korean market.

⁴ Tourism Victoria data based on International Visitor Survey produced by Tourism Research Australia.

Transitional arrangements

Given the current economic environment, any additional pressure on local industry should be avoided. While the Victorian Government recognises the Federal Government's plans for further reduction of Australia's import barriers in sectors such as textile, clothing and footwear, and automotive, the Australia – Korea FTA should not bring that process forward any sooner than already proposed without a phased-in approach that would allow industry-transition at a more appropriate rate.

Removal of tariff and non-tariff barriers

As outlined in the World Trade Organisation's 2008 Trade Policy Review of the Republic of Korea, Korea's customs tariff is relatively complex and includes a 'multiplicity of rates'. The applied most-favoured-nation (MFN) rate averaged 12.6 per cent in 2008, which is high by Organisation for Economic Cooperation and Development (OECD) country standards. Korea maintains high tariffs and often prohibitively high tariff rate quotas on a number of agricultural products. The average agricultural tariff rate is 53.5 per cent.⁵

While recognising that both Parties have sensitive industries that may require a different approach, there are opportunities for Victorian exporters should the FTA negotiations result in the elimination of a range of barriers. For example:

Dairy

Victorian dairy exports to Korea were worth \$74 million in 2007-08 and have stabilised at around this level over the past few years. Korea represents a growing market for the manufactured dairy products Victoria specialises in such as cheese, powdered milk and cream products, and butter. However, the high tariffs that dairy exports are subject to are a significant barrier to trade. For example, out-of-quota tariffs on milk powders are 176 per cent.

Meat

In 2007-08, Victoria's meat exports to Korea were valued at \$72 million. Korea is the fifth largest market for Victorian bovine meat exports, with 5 per cent of Victoria's bovine meat exports going to Korea. However, Victoria's meat exports to Korea face significant tariff barriers. Most beef imports were subject to a 40 per cent tariff in 2008.

Horticulture

Victorian fruit and vegetable exports are subject to significant trade barriers. The Korea National Plant Quarantine Service bans the importation of most Australian fresh fruit, with the exception of green bananas, oranges and lemons. Vegetables are not subject to the same quarantine problems although Victorian potato imports are prohibited.⁶ Fruit and vegetable exports to Korea also face high tariffs. Current bilateral quarantine negotiation processes are too slow to allow significant new trade to develop for both countries. This is an issue that could be addressed under the FTA.

Wine

The Victorian export wine industry is worth nearly \$300 million, and Korea is a small but potentially expanding market. Changing trends mean that consumption of imported wine is increasing, but tariffs, other taxes and high mark-ups that make the final

⁵ World Trade Organisation, *Trade Policy Review – Republic of Korea*, Report by the Secretariat, September 2008, Chapters 3 and 4.

⁶ Austrade, *Fruit and Vegetables to Korea*, available at <http://www.austrade.gov.au/Fruit-and-vegetables-to-Korea/default.aspx>.

consumer price higher in Korea than in Australia are a significant impediment to expanded trade. Import duties for wine are 30 per cent.

The FTA negotiations should remove existing non-tariff barriers to trade such as onerous labelling requirements (e.g. wine), burdensome standards and conformity assessment procedures (e.g. food and wine) or those barriers associated with setting up a business in Korea which can be cumbersome and non-transparent. The FTA negotiations should also address recognition of qualifications that would benefit Victorian services exports.

The negotiations should also ensure that new non-tariff barriers cannot be introduced once the agreement is completed. The Victorian automotive industry's experience with the introduction of non-tariff barriers to trade in the Thailand market after the Thailand-Australia FTA was introduced highlights the importance of effective implementation, compliance and review mechanisms for each FTA.

Rules of origin

It is important that there is consistency in the rules of origin (ROO) system adopted in Australia's FTAs, and that administration costs to Victorian exporters are as low as possible.

Government procurement

The inclusion of a government procurement chapter in an FTA could present opportunities for Victorian businesses to tender for government work in Korea.

Intellectual property protection

Notwithstanding the recent reforms to Korea's intellectual property (IP) laws, the Victorian Government supports an approach to IP in FTAs that gives assurance and confidence to Victorian industry seeking appropriate IP protection.

Business mobility and movement of natural persons

The FTA negotiations should consider the effect of current visa and immigration requirements and negotiate an outcome that facilitates the anticipated increased economic activity between the two countries resulting from an FTA.

Investment

While the Korean Government is generally positive towards foreign direct investment (FDI), FDI in Korea is constrained by a range of factors such as insufficient transparency in corporate governance and regulation, the dominant position of Korean conglomerates ('chaebol'), and an inflexible labour system.⁷ Where appropriate, the FTA should address existing barriers to investment flows between the two countries.

4. Conclusion

Victorian supports the negotiation of an FTA between Australia and Korea. There are commercial opportunities for Victorian exporters and investors from increasing market access to the Korean market through trade liberalisation in both tariff and non-tariff measures. Further detail on the issues raised in this Submission is available upon request. The Victorian Government looks forward to providing more detailed input and further cooperation with DFAT as the negotiations progress.

⁷ Further information available from <http://www.buyusa.gov/korea/en/investmentclimate.html>.