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Australia-Hong Kong Free Trade Agreement
Office of Trade Negotiations
Department of Foreign Affairs and Trade
RG Casey Building
John McEwen Crescent
Barton ACT 0221

CPA Australia Ltd
ABN 64 008 392 452
Level 20, 28 Freshwater Place
Southbank VIC 3006
Australia
GPO Box 2820
Melbourne VIC 3001
Australia
Phone 1300 737 373
Outside Aust +613 9606 9677
Website cpaaustralia.com.au

By email: a-hkfta@dfat.gov.au

Dear Sir/ Madam

CPA Australia submission on the proposed Australia-Hong Kong Free Trade Agreement

CPA Australia represents the diverse interests of more than 160,000 members in 118 countries, including around 12,000 members in Hong Kong. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders.

In making this submission, we have not only drawn on our experience in the Australian market but also the Hong Kong market, where we have been operating for over 60 years. We acknowledge our members in Hong Kong for their invaluable input on this important submission.

Against this background, and in the public interest of both economies, we provide this submission on the proposed Australia-Hong Kong Free Trade Agreement.

We fully support a proposed free trade agreement (FTA) between Australia and Hong Kong. We believe that both markets will be net beneficiaries of such an agreement and recommend that both governments seek to conclude the FTA with some urgency.

In developing the FTA, we encourage both governments to explore options that may significantly improve the connectivity between both economies. This could include joint funds for the promotion of innovation and a stock connect scheme.

We understand that such options may be beyond what both governments would typically include in a free trade agreement, however we foresee that these bold initiatives could over time underpin a significant boost to two-way trade, and importantly also benefit trade by both parties with Mainland China (especially the "Greater Bay Area" covering the Guangdong-Hong Kong-Macao Bay area) and other countries involved in the Belt and Road initiative.

We expect that the FTA will complement the China-Australia Free Trade Agreement (ChAFTA) and possibly expand the benefits that are flowing out of that agreement for Australian and Hong Kong businesses.

We suggest that consideration be given to include the following into the FTA or broader negotiations between Australia and Hong Kong:

A tax treaty between Australia and Hong Kong

Australia and Hong Kong have not entered into a double tax agreement (DTA). We note that it would be highly unusual for Australia or Hong Kong to enter into a free trade agreement with another jurisdiction without a comprehensive DTA with that jurisdiction.

Further, we expect that the anticipated economic benefits of a free trade agreement may not fully materialise unless there is a DTA between Australia and Hong Kong. We therefore recommend that both parties seek to conclude a DTA consistent with the OECD model tax convention as soon as possible.

Such a DTA would help to encourage trade and investment and the movement of people between both markets by reducing or eliminating double taxation caused by overlapping tax jurisdictions. A DTA will also reduce tax impediments to cross-border trade and investment by providing taxpayers greater certainty on the tax rules that will apply to particular transactions between the two jurisdictions, and assist tax administration.

At an individual level, a DTA could reduce disincentives to the movement of people between both jurisdictions as a DTA would remove double taxation in for example, circumstances where a person from one jurisdiction is temporarily earning a salary in the other jurisdiction. For companies, it could encourage greater cross-border trade and investment by reducing foreign withholding tax on dividends, interest and/or royalties.

Other benefits that could flow from a DTA include:

- increasing certainty by prescribing how certain profits are to be calculated
- exempting certain short-term activities in the host jurisdiction from income tax
- providing certainty of treatment
- providing procedures that assist in resolving disputes, and
- enabling information to be exchanged between tax administrations.

We suggest that the withholding tax rates in the DTA should be the same, if not lower than the withholding rates under the Hong Kong-New Zealand Double Tax Agreement being:

- Dividends – 0 or 5 per cent for qualifying companies and 15 per cent for others
- Interest – 10 per cent
- Royalties – 5 per cent

We recommend that regardless of whether a FTA is concluded, both parties should enter into a DTA as it should foster growth in economic activity between Australia and Hong Kong.

Encouraging greater movement of people between both markets

Critical to the success of any FTA is making it as easy as possible for individuals and businesses to be able to visit and work in the other market.

While the movement of people between the two jurisdictions is relatively easy, part of the FTA negotiations should consider whether further steps can be taken to make it easier for people to move between both jurisdictions.

In looking at the barriers to the movement of people, both jurisdictions should consider what can be included in the FTA to make it easier for people, especially business people, senior managers and specialists (including their immediate families) from one jurisdiction to enter, work and live in the other jurisdiction.

Further, the parties should consider how best to encourage owners of start-ups and those with the specialist skills considered important to start-ups to move in between and work in both jurisdictions. This could include allowing such people longer periods of stay in each market, simplified visa approval processes and simplified visa procedures for family members.

As discussed above, the potential double taxation of people from both markets working (at least temporarily) in the other market is one disincentive to movement of people that would be addressed through a DTA.

Such negotiations should also consider what changes to visa requirements might also encourage greater tourism between both markets. This could include making it quicker and easier for Australian

passport holders to be processed through passport control in Hong Kong – similar to the Arrivals SmartGate process in Australia (which currently includes Hong Kong passport holders).

Innovation

With encouraging innovation of critical importance to both jurisdictions, we suggest that consideration be given to incorporating an innovation chapter into the FTA. Such a chapter could include incentives that encourage innovation to be undertaken in both jurisdictions.

With both economies having advantages over the other in particular technologies, skills and access to funding, it is important that Australian and Hong Kong start-ups and established businesses be encouraged to make use of the competitive advantages that may exist in the other jurisdiction. Such an approach will better assist such businesses to develop and commercialise an idea.

We therefore suggest that consideration be given to including the following ideas in a potential chapter on innovation in the FTA:

- Establishing a joint innovation fund that both governments would make an equal financial contribution. Such a fund could provide matching funding to companies that undertake innovation in both jurisdictions. This joint fund should complement policy initiatives by both governments to encourage innovation and would help start-ups access the skills, technology and funds they need, regardless of whether those are in Australia or Hong Kong.
- Making it easier for people with specialist skills essential to innovation to move between and live and work in both jurisdictions.
- Enhancing cooperation on fintech. We believe that both jurisdictions should improve cooperation on the promotion of fintech through either the FTA or as a separate agreement. We note that regulators in both Hong Kong and Australia have already entered into agreements with regulators in other jurisdictions on improving co-operation on fintech and supporting fintech firms and that these agreements should at least be replicated between Australia and Hong Kong. Such an agreement would contribute to the work that both governments are undertaking to promote innovation in financial services.
- Mutual recognition of approved platforms offering equity crowd-funding, peer to peer financing and other innovative financing for small to medium-sized businesses where regulatory approval is needed. This could expand the size of the funding available under such financing innovations and potentially help more start-ups access the funding they require.

Financial services

Greater cooperation and connectivity between the financial services sector and the financial markets of both jurisdictions (and their respective regulators) would not only assist the growth of those sectors, it would do much to enhance trade and investment in other sectors under a FTA. We would expect that such co-operation would also enhance trade and investment with Mainland China and other nations participating in the Belt and Road initiative.

To encourage greater cooperation and connectivity between the financial markets of both jurisdictions, we suggest consideration be given to incorporating the following ideas into the FTA:

- Mutual recognition of funds. Mutual recognition of funds through a bilateral agreement between Australia and Hong Kong should facilitate the cross border marketing of managed funds in both jurisdictions. It would also build upon the existing Mutual Recognition of Cross-Border Offering of Collective Investment Schemes between Australia and Hong Kong, and complement the Asia Regional Funds Passport initiative and the mutual recognition of funds between Hong Kong and Mainland China. Such a bilateral agreement should:
 - create a broader market and reduce compliance costs for managed funds
 - provide fund managers in both markets with a better opportunity to compete for a larger share of managing Asia's assets, and
 - provide investors from both markets with greater choice of investment products, while maintaining appropriate investor protections.

- Establish mutual market access for the trading of shares listed on the Australian Securities Exchange and the Hong Kong Exchange (HKEx). A 'stock connect' scheme between the major stock exchanges of Australia and Hong Kong should increase investor choice by making it easier for investors in one jurisdiction to purchase and dispose of shares listed in the other jurisdiction, thus deepening the liquidity of both markets while maintaining appropriate investor protections. It would build on the stock connect schemes HKEx has with exchanges in Shanghai and Shenzhen.
- Establish mutual bond market access between Australia and Hong Kong. A 'bond connect' scheme between Australia and Hong Kong would promote the development of the bond market in both jurisdictions by making it easier for companies in both jurisdictions to raise funding via bonds and provide investors greater choice. Bond connect would also provide another funding option for companies in both jurisdictions looking to seize opportunities created by the Belt and Road initiative. It could build on the recently announced Bond Connect scheme between Mainland China and Hong Kong.
- Establish stronger linkages between the commodities markets of Australia and Hong Kong. Stronger linkages between the commodities markets of Australia and Hong Kong could make it easier and cheaper for the export and import of commodities between both markets and Mainland China.

E-commerce

We recommend that the FTA include a chapter on e-commerce. The chapter could include obligations to reduce or remove any identified barriers to e-commerce and put in place frameworks to encourage cooperation between both governments on e-commerce. This chapter should at least be comparable to the e-commerce chapter in ChAFTA.

Encouraging investment

The FTA should include raising the thresholds at which private Hong Kong investments in non-sensitive sectors of the Australian economy are considered by the Foreign Investment Review Board (FIRB) to A\$1,094 million. This would be consistent with the threshold in ChAFTA. In relation to other restrictions on Hong Kong investment into Australia, the FTA should be consistent with ChAFTA.

Removal or reduction of tariffs

Where tariff and non-tariff barriers exist on the trade of goods between both parties, the FTA should set out a timeline for the reduction and removal of such tariff and non-tariff barriers. The FTA should also include a commitment from both parties to not introduce any new tariff and non-tariff barriers on goods originating from either jurisdiction.

The reduction and removal of tariffs and non-tariff barriers should at least be consistent with what was agreed in ChAFTA. Should the removal or reduction in tariffs by Australia on goods originating in Hong Kong under this FTA be more favourable than the tariff reduction agreements under the ChAFTA, consideration should be given to providing the lower tariff rate to goods originating in Mainland China (especially from the Greater Bay Area) that are transhipped through Hong Kong.

Health and aged care services

We suggest that the parties consider through the FTA negotiation process how best to improve cooperation on health and aged care services. Examples of ideas that could be included in a FTA include establishing a joint fund to promote collaboration in medical research between both jurisdictions, establishing a joint fund to encourage collaboration on research into improving the delivery of health and aged care services and encouraging collaboration in the delivery of health and aged care service in both markets.

We would be pleased to discuss these matters further should you wish. Please contact Gavan Ord, Manager – Business and Investment Policy on +613 9606 9695 or gavan.ord@cpaaustralia.com.au.

Yours faithfully

A handwritten signature in grey ink, consisting of several loops and a long horizontal stroke extending to the right.

Stuart Dignam

General Manager – Policy & Corporate Affairs