



PORTRADE

PORTUGUESE AUSTRALIAN
CHAMBER OF COMMERCE

Australia-European Union Free Trade Agreement Submission

IMPACT ON PORTUGAL-AUSTRALIA TRADE

PORTUGUESE AUSTRALIAN CHAMBER OF COMMERCE

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Position summary

The Portuguese Australian Chamber of Commerce (Portrade) strongly supports and encourages negotiations over an Australia-European Free Trade Agreement (hereafter the “FTA”).

We believe an FTA is crucial to expanding Australian trade with Europe in general, and with smaller, often-overlooked markets like Portugal more specifically.

The lack of an FTA is one of the biggest impediments to increasing bilateral trade between Australia and Portugal, as it puts business on both sides at an automatic disadvantage to our competitors from countries who enjoy more barrier-free access to each other’s markets.

The EU is now in negotiations over trade agreements with the United States, Japan and New Zealand, which leaves Australia as the last developed market to begin negotiating an FTA with Europe.

The EU is arguably Australia’s most important trading partner when investment is included, and it is therefore very encouraging to see that negotiations on an FTA will shortly be underway.

A Double Tax Agreement (DTA) between Australia and Portugal is sorely needed as well, the lack of which negatively impacts current and potential commercial relationships and investment flows between our two countries.

Portugal and Luxembourg are the only two Western European countries with which Australia lacks a DTA, an anomaly that can hopefully be rectified with little effort on both sides.

Portrade is encouraged by the commencement of negotiations and is optimistic that an FTA can be concluded in a timely fashion. Further Portrade urges that the lack of a DTA between Australia and Portugal be swiftly addressed so that remaining barriers to bilateral trade and investment flows can be lowered or eliminated.

Potential impact of an FTA on Australia-Portugal trade

Considering the EU's internal market structure and Common Customs Tariff, Portugal stands to benefit as much as other EU member states from reduced tariffs as a result of the FTA.

The biggest impact would be felt in tariff reductions applying to the most-traded items in our relationship, given the small scale of trade that is currently flowing between Australia and Portugal.

Australia's major exports to and imports from Portugal are summarised in Table 1.

Major Australian exports	Amount (AUD, 2014)	Major Australian imports	Amount (AUD, 2014)
Paper & paperboard	\$3.3 million	Footwear	\$20.6 million
Measuring & analysing instruments	\$1.7 million	Cork manufactures	\$14.9 million
Crude vegetable matter	\$1.24 million	Special yarns & fabrics	\$8.1 million
Prepared additives for mineral oils	\$1.23 million	Other textile clothing	\$8 million

Table 1: Major Australian exports and imports to/from Portugal (Source: DFAT)

Australian imports from Portugal

Footwear is Australia's largest and most notable import from Portugal and accounts for nearly 15% of all our imports, or around AUD 20 million in 2014. Footwear imports are currently subject to tariff rates ranging between zero and 5%. Any movement toward a uniform zero percent tariff will no doubt encourage further trade in the sector, especially for lower-margin manufacturers for whom a 5% tariff can make a difference in market entry decisions.

Cork is Australia's second largest import from Portugal, accounting for AUD 14.9 million in 2014. Cork generally enters Australia tariff-free, with the exception being a 5% tariff applied on agglomerated cork. In 2013, Portugal exported USD 2.5 million worth of agglomerated cork to Australia (compared to USD 11.2 million in natural cork that year), a number which could increase if this remaining cork tariff were removed.

Special yarns and fabrics are Australia's third largest import from Portugal, accounting for around AUD 8 million in 2014, though most yarn already enters Australia tariff-free.

Australian exports to Portugal

Paper and paperboard is Australia's biggest export to Portugal, accounting for almost one-sixth of all exports in 2014, or AUD 3.3 million. These largely enter Portugal tariff-free.

Measuring and analyzing instruments are Australia's second biggest export to Portugal, accounting for AUD 1.7 million in 2014. The impact of EU tariffs varies by instrument, and is difficult to measure in Portugal's case.

Crude vegetable matter is Australia's third biggest export to Portugal, accounting for AUD 1.2 million in 2014. The impact of EU tariffs on this is difficult to measure without more specific information.

Prepared additives for mineral oils are Australia's fourth largest export to Portugal, accounting for AUD 1.2 million in 2014. EU tariffs depend on specific uses and composition, but in general are around 5.3%.

Conclusion

The impact of existing Australian and EU tariffs on the bilateral goods trade is thus fairly negligible in the Australia-Portugal relationship, at least when it comes to our most-traded items. Considering Australia exports just AUD 17 million to Portugal and imports just AUD 163 million, the tariff impact on our most-traded goods is a good indicator of their impact on our relationship overall.

The most notable item here is the 5% tariff on footwear imports into Australia, considering footwear is the single most important item in our trading relationship. Any reduction or elimination of this tariff as a result of the FTA may have the most impact in terms of boosting bilateral trade.

The signaling effect a trade agreement provides to business in both countries is perhaps the most important outcome of an FTA, especially when the agreement is between two already liberalised and developed markets like Australia and Portugal.

It would give Australian businesses a reason to knock on the doors of potential customers and partners and start conversations, leveraging at least the initial publicity the FTA will garner.

Australian companies compete not only with the world's best companies in Europe, but also with Europe's best companies who are more familiar with Portugal. Any additional leverage such as the publicity surrounding a freshly-minted FTA will be crucial to gaining at least a temporary competitive advantage in the market.

Likewise for Portuguese companies in Australia, where they might otherwise be overlooked if not for the fact that they could sell the easier market access and attention resulting from the FTA.

Potential impact of a DTA on Australia-Portugal trade

Australia has DTAs in place with nearly 50 countries around the world, with Portugal being the largest exception in Europe (see Table 2).

Europe	Americas	Africa	APAC
Austria	Argentina	South Africa	China
Belgium	Canada		Fiji
Czech Republic	Chile		India
Denmark	Mexico		Indonesia
Finland	United States		Japan
France			Kiribati
Germany			Korea (Rep. of)
Greece			Malaysia
Hungary			New Zealand
Ireland			Papua New Guinea
Italy			Philippines
Malta			Singapore
Netherlands			Sri Lanka
Norway			Taiwan
Poland			Thailand
Romania			Vietnam
Russia			
Slovakia			
Spain			
Sweden			
Switzerland			
Turkey			
United Kingdom			

Table 2: Australia's DTAs around the world (Source: The Treasury)

The lack of a DTA between Australia and Portugal exposes companies in both countries to juridical double taxation, creating an unnecessary barrier to two-way foreign investment.

Not only would a DTA mitigate the direct impact of double taxation for investors from either country, but it would also decrease uncertainty for investors and signal a bilateral commitment to foreign investment between Australia and Portugal.

Indirect benefits may also accrue from a DTA, spurred by increased investment and commercial activity, such as increased employment and transfers of knowledge and technology.

A DTA may also increase bilateral investment simply by virtue of allowing fund flows that are currently being sent through third countries (due to a lack of an agreement) to be redirected toward direct investment between Australia and Portugal.

Portrade is aware of cases where business relationships between Australia and Portugal have been impacted by the lack of a DTA, much to the confusion and concern of the parties involved.

Considering Australia has such agreements in force around the world – including with all of Portugal’s Western European counterparts bar Luxembourg – we would expect that rectifying this anomaly (which on one view of it amounts to a selective unfounded discrimination) will require little effort on either side, and can be done expediently.

Background: Australia-Portugal linkages

Economic and trade links

Portugal is one of Australia’s smallest trading partners in Western Europe. Out of 16 countries, Australia trades less with only Luxembourg – a market four times smaller in terms of GDP and 20 times smaller by population.

It is useful to note however, that statistics likely do not capture the full extent of the Australia-Portugal trading relationship, on account of the EU’s single market and the fact that goods may enter one EU country and then be freely shipped for sale in another. Likewise, intermediate hubs like Dubai and Singapore – with which Portugal trades about the same as it does with Australia – may be used as transshipment and consolidation hubs by Portuguese companies to reach distant markets like Australia, and vice-versa.

Australia exported just AUD 17 million to Portugal in 2014, and imported AUD 163 million (see Table 3).

GOODS EXPORTS		GOODS IMPORTS	
Country	Amount (AUD, rank)	Country	Amount (AUD, rank)
UK	\$3.6bn (12)	Germany	\$11.9bn (6)
Netherlands	\$2.3bn (16)	UK	\$6.3bn (10)
Germany	\$1.6bn (20)	Italy	\$5.9bn (11)
Belgium	\$1.1bn (24)	France	\$4.6bn (15)
France	\$1bn (25)	Switzerland	\$3bn (19)
Italy	\$715m (27)	Netherlands	\$2bn (22)
Spain	\$598m (30)	Spain	\$2bn (23)
Switzerland	\$467m (36)	Sweden	\$1.9bn (24)
Sweden	\$260m (46)	Ireland	\$1.8bn (25)
Norway	\$171m (51)	Belgium	\$1.6bn (26)
Denmark	\$116m (57)	Denmark	\$1bn (28)
Austria	\$77m (64)	Austria	\$1bn (30)
Ireland	\$55m (70)	Finland	\$734m (40)
Finland	\$36m (77)	Norway	\$371m (49)
Portugal	\$17m (95)	Portugal	\$163m (58)
Luxembourg	\$6.7m (126)	Luxembourg	\$19.5m (98)

Table 3: Australia's goods trade with the 16 Western European countries in 2014 (Source: DFAT)

Finland is Australia’s next largest Western European trading partner and is nearly identical in terms of GDP (USD 267 billion compared to Portugal’s USD 227 billion) but half the population, and yet we export twice as many goods and import nearly five as many goods from the Nordic nation as we do to/from Portugal.

A low export figure is partly attributed to the lingering effects of the 2008 Global Financial Crisis (GFC) and its impact on the Portuguese economy. In 2007, the year before the Crisis, Australia exported AUD 41 million to Portugal – nearly on par with our exports to Ireland.

This suggest the opportunity and market are there and available to be tapped once a more positive economic picture returns to Europe.

In services, the story is similar, though our relationship is slightly stronger in relative terms.

At just over AUD 100 million, Australia trades less in services with Portugal than with all other Western European nations bar Luxembourg, once again (see Table 2).

Australia’s AUD 59 million in services imports is promising, however,

SERVICES EXPORTS		SERVICES IMPORTS	
Country	Amount (AUD, rank)	Country	Amount (AUD, rank)
UK	\$4.8bn (3)	UK	\$6.2bn (2)
Germany	\$1.1bn (13)	Germany	\$2bn (10)
Switzerland	\$993m (14)	France	\$1.4bn (13)
France	\$757m (18)	Italy	\$1.3bn (14)
Italy	\$563m (25)	Switzerland	\$1.2bn (16)
Ireland	\$528m (26)	Ireland	\$1bn (18)
Netherlands	\$463m (27)	Netherlands	\$1bn (19)
Denmark	\$370m (28)	Denmark	\$1bn (20)
Spain	\$308m (32)	Norway	\$425m (27)
Sweden	\$272m (34)	Spain	\$391m (30)
Norway	\$269m (36)	Sweden	\$231m (33)
Belgium	\$108m (46)	Austria	\$121m (46)
Austria	\$84m (52)	Belgium	\$93m (48)
Finland	\$81m (53)	Portugal	\$59m (64)
Portugal	\$52m (62)	Finland	\$50m (68)
Luxembourg	\$21m (92)	Luxembourg	\$28m (84)

Table 4: Australia’s services trade with 16 Western European countries in 2014 (Source: DFAT)

Portugal is also Australia’s smallest investment partner in Western Europe (see Table 5). Australia invests just one-third as much in Portugal as in our next smallest outbound destination, Austria.

OUTBOUND INVESTMENT		INBOUND INVESTMENT	
Country	Amount (AUD)	Country	Amount (AUD)
UK	\$304bn	UK	\$484bn
Germany	\$65.4bn	Luxembourg	\$58.8bn
Switzerland	\$41bn	Netherlands	\$56.5bn
France	\$40.5bn	Switzerland	\$54.5bn

Netherlands	\$35.6bn	Germany	\$40bn
Luxembourg	\$17.7bn	Belgium	\$26bn
Ireland	\$8.8bn	France	\$21.7bn
Sweden	\$7bn	Ireland	\$16.2bn
Norway	\$6.5bn	Norway	\$13.1bn
Spain	\$5.5bn	Sweden	\$6.5bn
Italy	\$5bn	Austria	\$4.8bn
Finland	\$3.5bn	Italy	\$2.8bn
Belgium	\$2.7bn	Denmark	\$1.7bn
Denmark	\$2.7bn	Finland	\$347m
Austria	\$944m	Spain	N/A
Portugal	\$317m	Portugal	N/A

Table 5: Australia's investment relationship with the 16 Western European countries in 2014 (Source: DFAT)

Portugal's investment in Australia includes plants to manufacture wine closures from Portuguese cork, as well as plants for the timber, veterinary, wine, pharmaceutical and biotechnology industries.

This Portuguese investment in Australia totaled AUD 44 million in 2013, though 2014 figures are unavailable due to confidentiality reasons, according to DFAT.

Political links

Australia and Portugal share a commitment to the long-term stability of former Portuguese territory Timor-Leste, which acts as a key component of our bilateral relationship.

A working holiday visa arrangement has been in force since November 2014, allowing young Portuguese and Australians to experience short-term study or work in each other's countries with greater ease.

A bilateral social security arrangement has been in force since 2002, providing social security protection for those who have lived and worked in both Australia and Portugal. It exempts Australian employers from the need to provide Portuguese social security support for Australian employees sent temporarily to work in Portugal, so long as the employee remains covered in Australia by compulsory superannuation arrangements.

Visa processes for tourism and business purposes are simplified under standard EU arrangements – Australians are allowed visa-free access to Portugal for tourism, business or official purposes, and Portuguese have access to the simple online visa service for tourism or business travel to Australia.

Soft links

Australia and Portugal enjoy a strong bilateral relationship and soft ties.

Nearly 50,000 Australians claim Portuguese ancestry, almost a third of which are Portuguese-born. These links form the basis of a steady flow of family visits and cultural exchanges.

In 2014, there were nearly 10,000 short-term resident departures from Australia to Portugal (up nearly 2% year-on-year) and 5,500 short-term arrivals from Portugal (up 21% y-o-y).

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