



Export Council of Australia

The Voice for Australia's Exporters

20 March 2015

Australia-India Comprehensive Economic Cooperation Agreement
Free Trade Agreement Division
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Export Council of Australia (ECA) submission on the proposed Australia-India Comprehensive Economic Cooperation Agreement (CECA).

About the ECA

A not-for-profit, membership based organisation, the ECA is the peak industry body representing Australia's exporters and importers, particularly SMEs. With a membership base of 1,000 and a reach of 15,000, the ECA represents companies of all sizes and across a wide range of industry sectors. The ECA's core activities include: research, advocacy, skills development and events.

The ECA also works collaboratively with a number of Federal and State Government Departments to advance the interests of its members and the broader business community; these include Efic, DFAT, Austrade, the Australian Customs and Border Protection Service ("Customs"), Department of Industry and the Department of Agriculture. The work with Customs includes representation on the Customs and Border Protection National Consultative Committee and representation on the Industry Advisory Group convened for Customs Trusted Trader Programme.

The ECA regularly provides submissions to Agencies and Government on various reviews, as well as to parliamentary inquiries. These have included submissions relating to the Korea-Australia Free Trade Agreement (KAFTA) and the KAFTA Customs Bills, the Japan-Australia Economic Partnership Agreement (JAPEA) and the JAPEA Customs Bills, the Trade in Services Agreement, and more recently the EMDG Review. The ECA also releases annual Trade Policy Recommendations (TPR), and the latest document, TPR 2014/15, includes commentary and recommendations regarding the Government's FTA agenda and ways in which Government should work with industry to raise the level of use of FTAs.

In 2014 the ECA launched a collaborative project with Austrade, Efic and the University of Sydney to undertake a longitudinal survey, Australia's International Business Survey (AIBS), designed to capture



data on the international business activity of Australian companies. The first survey, conducted in 2014, captured data from over 1,600 Australian exporters, making it the most comprehensive investigation into Australia's international business activity in more than 15 years. The 2015 AIBS results will be publically released in May.

Introduction

The ECA welcomes the opportunity to put forward a submission on behalf of the export community on the potential outcomes and impacts of the Australia-India CECA. The ECA supports international agreements that serve to further liberalise trade between Australia and the rest of the world as trade is a driver of economic growth, job creation and long-term prosperity. It is also clear from AIBS 2015 results that there is the appetite from the Australian export community for a trade agreement with India given that 122 respondents indicated a trade agreement with India specifically would be useful to their business. Therefore, the ECA supports the Australian Government's commitment to pursue a CECA with India, in so far as it has assurance that real gains can and will be made.

In its 2014/15 Trade Policy Recommendations for Government, the ECA states:

In addition to implementing the trade agreements Australia recently secured with Korea and Japan, and concluding negotiations with China and the TPP, the next focus should be on securing Free Trade Agreements (FTAs) with Indonesia, Hong Kong, India, the GCC and the EU. However, in the case of India and the GCC, Australia should not embark on FTA negotiations until it has secured firm commitments from those nations on the expected outcomes from the negotiations in order to ensure that any agreement reached will deliver real benefits.

Without limiting the generality of this support, the ECA wishes to highlight the following specific elements:

1. While the ECA sees India as a market that holds great promise for Australian businesses, it would like to emphasise the need for assurance that tangible benefits can and will be gained for Australian business through the Australia-India CECA.
2. While the ECA would prefer international liberalisation of trade to advance on a multilateral basis, in the absence of any foreseeable completion of the Doha Round of negotiations at the WTO, advances in liberalisation of international trade must occur, by default, pursuant to regional, bilateral and other FTAs or similar agreements. On that basis, the ECA is of the view that an agreement such as the CECA with India represents a reasonable and desirable outcome to advance Australian trade.
3. The ECA does not believe that the CECA with India is in any way inconsistent to any other negotiations to which Australia is a party such as the Doha Round, the Trade in Services Agreement, the Environmental Goods Agreement and the Trade Facilitation Agreement.
4. The Indian economy is a significant part of the international economy by any measure. As India deregulates and becomes a more open trading economy, the opportunity for Australian goods and services exporters will multiply. The opportunity for the Australia-India CECA is to establish the starting point and framework for long term liberalisation.
 - a. The ECA believes that the Australia-India CECA could be a living agreement and notes that its terms and benefits could continue to develop over time through the Committees established pursuant to the CECA with India.

5. The ECA is of the view that in order to achieve the maximum benefit from negotiating a trade agreement with India, the government will firstly need to undertake extensive engagement with interested parties before signing the agreement. Following the conclusion of negotiations, the government should focus on providing post-implementation tools and information to ensure businesses are aware and able to take full advantage of the benefits gained through the agreement. The ECA is able and willing to provide assistance in this regard.
6. While eliminating and/or reducing tariff barriers will be a key focus of Australia-India CECA negotiations, the ECA believes it is also crucial to acknowledge the non-tariff barriers that Australian companies face and, where possible, take the necessary steps to ensure these are addressed in the final agreement.
7. The ECA is pleased to note that services, particularly education, mining and resources, engineering/architecture/ transport/ infrastructure, and health services will be a focus for CECA with India. Australia has significant expertise in these areas and India has a huge need for the world class services Australia can provide.

The Opportunity

India is the third largest economy in the world and is Australia's fifth largest export market with goods exports valued at \$12.2 and services exports worth \$1.8 in 2012. Total two-way trade in goods and services between the two countries was worth approximately \$15.2 billion in 2013.

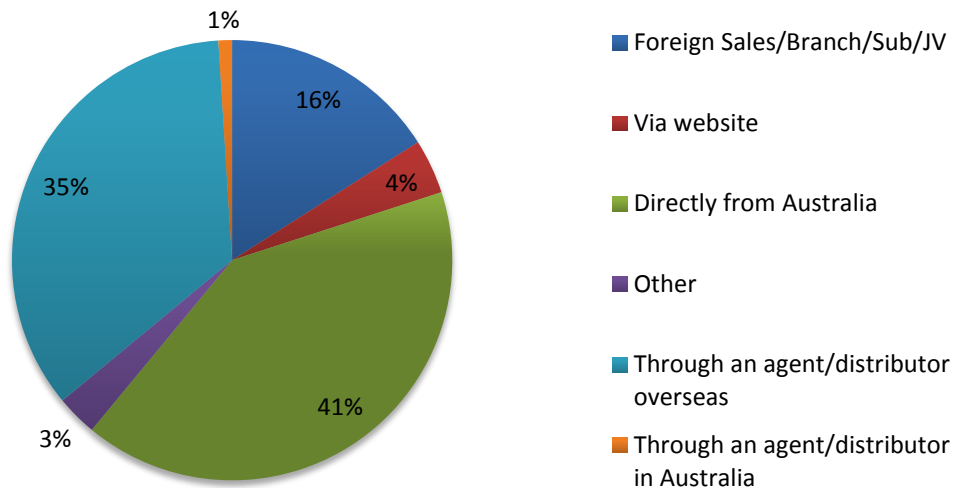
India has embarked on a process of economic reform and progressive integration with the global economy, which it hopes will spur sustained economic growth. The IMF has hailed India a "bright spot", highlighting the country's potential to double the size of its economy by 2019 compared to 2009, as well as its impressive growth rates. While the global economy is expected to grow 3.5 percent in 2015 and 3.7 percent in 2016, the IMF forecasts that India's growth will pick up to 7.2 percent this fiscal year and accelerate further to 7.5 percent next year—making it the fastest growing large economy in the world. India's youthful population propels this growth, with more than 50 percent of India's population currently below the age of 25, and more than 12 million people enter the labour market every year.

While up until the early 1990s India was a relatively closed economy, it has since followed a path of cautious reform. India is now pushing for a more liberal global trade regime, especially in services, and its focus is moving from the protection of producers to the protection of consumers, thus making it an ideal time for Australia to pursue a trade agreement.

There is no doubt Australian businesses have India on their radar. In fact, AIBS 2014 respondents rank India as the ninth top export market, while AIBS 2015 data saw India move up one rank to eighth position. AIBS 2014 respondents also rank India as the third top market they plan to target in the next two years, preceded only by China and the United States. Strong growth prospects (77%) and personal networks/contacts (53%) are the two key reasons survey respondents selected India as their target market for future business.

According to AIBS 2014, 41 percent of companies currently doing business with India service the market directly from Australia, while 35 percent use an agent or distributor (see Figure 1 below).

Figure 1: Mode of servicing the Indian market

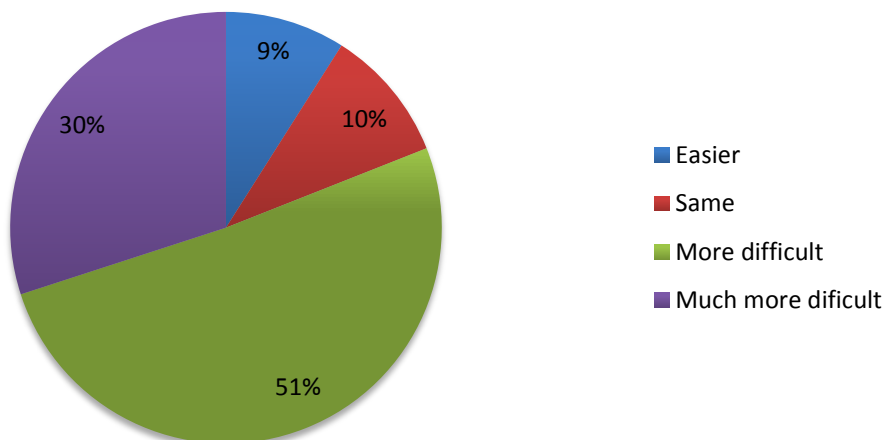


The Challenges

While the ECA acknowledges there are many reasons to be optimistic about India and the state of its economy, it is prudent to acknowledge that significant barriers still exist for Australian businesses doing business or looking to do business in the market. India's trade regime and regulatory environment remain somewhat restrictive and the country still maintains substantial tariff and non-tariff barriers. While barriers are being lowered through India's reform process, the ECA is hopeful that Australia's CECA with India will help further reduce these barriers and provide real benefits for Australian businesses.

AIBS 2014 results indicate that 81 percent of Australian businesses find doing business in India more difficult or much more difficult than doing business in Australia, as can be seen in Figure 2 below.

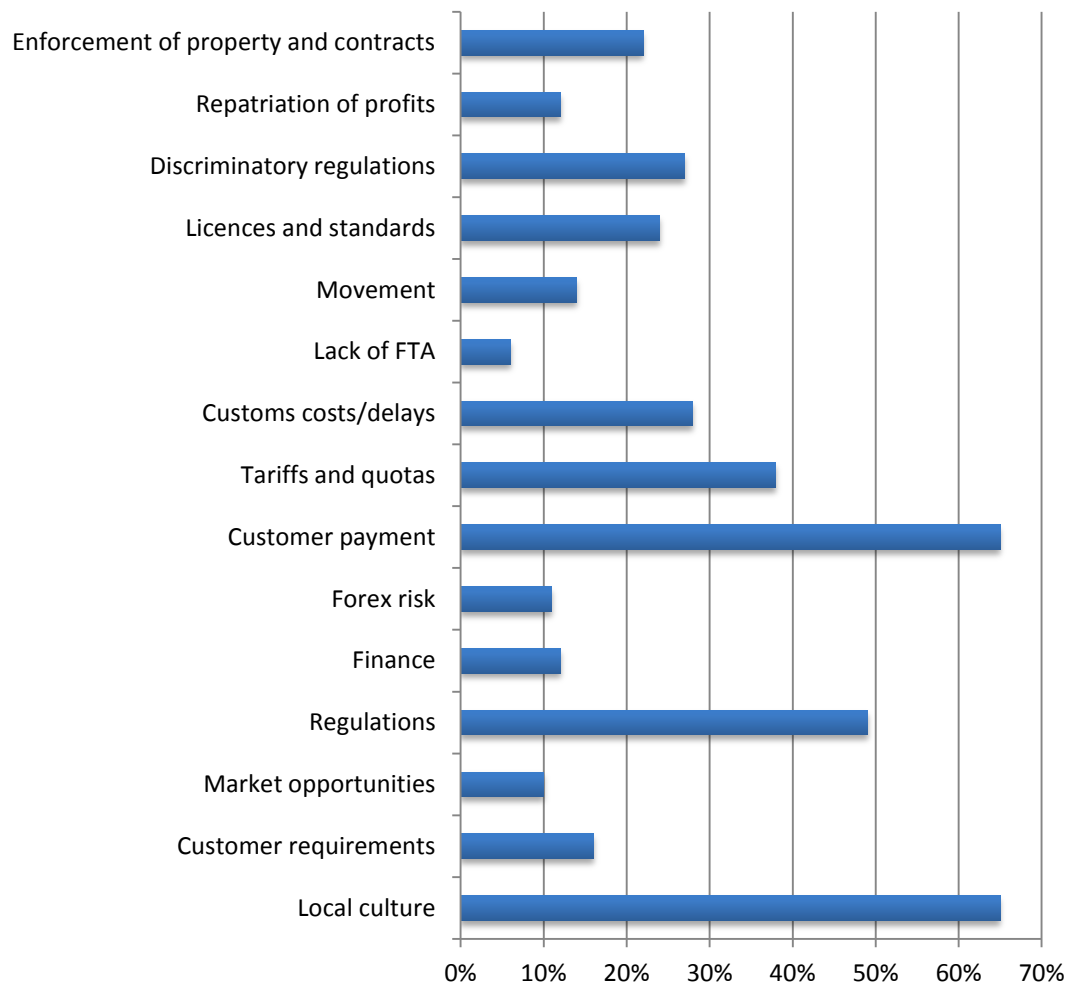
Figure 2: Ease of doing business in India compared with Australia



Despite India being one of the top three target markets listed by AIBS 2014 respondents, it is also listed the second most difficult market in which to do business. This finding is supported

by the World Bank’s Doing Business Report, which ranks India 142nd out of 189 countries in terms of the overall ease of doing business and 126th in its trading across borders ranking. Moreover, AIBS 2014 results indicate that India is the top country that respondents stopped doing business with in the previous 12 months, followed closely by China. Respondents cited local culture, customer payment issues, regulations and tariffs and quotas as some of the key barriers they face in doing business in India (see Figure 3).

Figure 3: Barriers to doing business in India



Anecdotal evidence gathered by the ECA suggests that high tariffs are a significant barrier to exporters. One member indicated that his company faces a base tariff of 28.5 per cent for its product, which is comparatively higher than the tariff charges in their other export markets. This coupled with the additional taxes that are applied, means the cost to import reaches almost 50 per cent making it difficult to charge a competitive price for the product.

Moreover, specific attention should be given to provisions on customs procedures and trade facilitation with flexible provisions on rules of origin and certificates of origin, availability of rulings and specific trade facilitation provisions for Australia/India trade. This should include provisions dealing with non-tariff barriers, early reporting of cargo, expedited trade, clearance and approvals, as well as provision for a “trusted trader” scheme.

Some other non tariff issues raised by exporters that could be addressed through the CECA with India include:

- The 'Make in India' campaign, launched by Prime Minister Narendra Modi, which poses a challenge to Australian exporters.
- The potential for mutual recognition of arrangements for Type Approvals would be welcomed. For example, the Indian Type Approval model is based on the European version, so mutual recognition of the European standard would be of significant benefit.
- Changes to IP holding regulations would be beneficial. Currently companies need to incorporate in India to hold IP, so registering a domain name, a patent or a trademark requires a market presence.
- The repatriation of capital can be difficult and the withholding tax rate remains relatively high compared to other countries.
- Improvements to transfer pricing rules and certificate of origin regulations would be beneficial.

Analysis

Australia's most recent trade agreements were negotiated with trading partners with whom Australia has significant existing trade. In that sense, the agreements will support a long term increase in bilateral trade. In stark contrast, Australia's bilateral trade with India is currently significantly under potential by almost any measure. The Australia-India CECA presents an opportunity to establish a long term framework for greater Australia India bilateral trade, and perhaps more importantly, contribute to a framework for India's long term economic reform and liberalisation.

Conclusion

The ECA supports the Australia-India CECA and believes it has the potential to create tangible benefits for Australian businesses. There is no doubt India is a complex and challenging market to do business in, especially for SMEs, therefore a trade agreement that results in the lowering of tariff and non-tariff barriers would be welcomed. The ECA stresses that any trade agreement with India needs to be coupled with effective post-implementation outreach to the business community to raise awareness and provide information to assist with the utilisation of the agreement.

The ECA will have more detailed information regarding the barriers to doing business in India once the AIBS 2015 reports are finalised. We look forward to maintaining an open dialog and providing further information if so desired.

Sincerely

A handwritten signature in blue ink, appearing to read 'Andrew Hudson', with a stylized, sweeping flourish at the end.

Andrew Hudson
Director and Chair of the Trade Policy Committee
Export Council of Australia