



# An Australia – Malaysia Free Trade Agreement

Australian Industry Group submission to the  
Department of Foreign Affairs and Trade

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## **SUMMARY AND RECOMMENDATIONS**

### **Executive Summary**

The Australian Industry Group (Ai Group) welcomes this opportunity to provide comment to the scoping study on a proposed Australia-Malaysia Free Trade Agreement (FTA).

Ai Group supports the commencement of negotiations for an Australia-Malaysia FTA that is able to deliver clear benefits to Australian industry. As the Australian economy has been unilaterally liberalized, it is critical that industry gains unimpeded access to export markets, and furthermore, that this access provides Australia with competitive positioning in the complex web of international trade agreements.

Australia has long-standing and enduring links with Malaysia in education, defence, police and intelligence cooperation, tourism, cultural exchanges and trade and investment. Further, Malaysia is an important regional neighbour and economic partner for Australia.

While both countries have relatively open economies, there is scope for improvement in trade in goods and services, including investment flows, which could be addressed by an FTA.

The Agreement should be comprehensive in nature, and provide immediate liberalization across merchandise trade to all but a minimum of sensitive items, to which transitional tariff reduction arrangements should be applied. The rules or origin for preferential tariff treatment should follow the product-specific methodology employed in the Thailand-Australia FTA.

While the 3% duty under the Tariff Concession System will effectively be abolished for Thai imports under an FTA, this Australian Government-imposed impediment to industry's global competitiveness must be urgently addressed on imports from non-FTA partners.

Defensive tools of trade including safeguard measures, anti-dumping and countervailing measures should be assured to ensure trade occurs on an equitable basis.

Apart from tariff barriers, non-tariff barriers should also be addressed, including issues relating to conformity to technical and other standards. Mechanisms to provide more equitable treatment of Intellectual Property issues, access to Government procurement and investment opportunities are also critical. General issues of the transparent administration of laws and regulations are also key to addressing the area of non-tariff barriers.

Finally, it is Ai Group's recommendation that a regular review mechanism, to be attended by industry representatives, be incorporated into any agreement to ensure the agreement evolves in a manner that continues to facilitate trade to the fullest extent possible.

## Summary of Recommendations

1. *Ai Group welcomes the commencement of negotiations between the two countries and fully supports the conclusion of an equitable Australia - Malaysia FTA. The deal must however, deliver clear benefits to Australian industry.*
2. *Australia's goal must be to win access for its exporters to the Malaysia market, which, as a minimum, matches the preferences awarded any of Malaysia's other trading partners.*
3. *The Agreement should be comprehensive, covering all sectors of trade, services and investment.*
4. *The FTA should deliver immediate tariff elimination on the largest number of products possible, while accommodating transitional arrangements for sensitive sub-sectors. For those items for which phased tariff reduction is necessary, zero tariffs should be achieved within a maximum of 10 years.*
5. *Rules of Origin should follow the product-specific methodology employed in the Thailand-Australia FTA.*
6. *Transitional safeguards must be in place and readily accessible to support industry from import surges that cause or threaten to cause serious injury.*
7. *Both countries' rights to WTO-consistent anti-dumping and countervailing mechanisms should be preserved.*
8. *Elimination of non-tariff barriers and close attention to standards and conformity issues, to ensure equitable treatment.*
9. *Intellectual Property laws should be harmonised to ensure universal protection.*
10. *Equitable access to Government procurement arrangements.*
11. *Barriers hindering bilateral investment flows to be removed and supported by provisions facilitating the temporary entry of business people.*
12. *Industry to be included in review mechanisms to be incorporated into the Agreement to ensure that as the Agreement evolves, it continues to facilitate trade and investment to the fullest extent possible.*
13. *The negotiations must be integrated with Australia's global trade strategy encompassing simultaneously multilateral, sub-regional and bilateral activities.*

## **BACKGROUND**

Australia's Trade Minister Mark Vaile, and Malaysia's Minister for International Trade and Industry, Dato' Seri Rafidah Aziz, agreed at the Australia-Malaysia Joint Trade Committee Meeting on 26 July 2004, that the two countries would conduct parallel scoping studies on an FTA.

Both Governments' studies are to be completed in the first quarter of 2005. The studies will enable both Governments to determine whether to proceed to bilateral FTA negotiations.

This submission is a result of the Australian Government call for input to its scoping study, which will include an economic assessment of the FTA, to be carried out by the Centre for International Economics.

The study will assess an FTA that includes:

- across-the-board preferential tariff treatment in both markets
- enhancing bilateral trade by addressing non-tariff measures
- broadly-based liberalisation of the services sector
- potential for greater access to government procurement contracts
- measures to promote the two way flow of FDI
- the potential for improved cooperation in areas such as competition policy and practices and intellectual property
- improved trade facilitation and measures to address technical barriers to trade, including cooperation on standards and mutual recognition of conformity assessment
- preferential Rules of Origin
- increased use of e-commerce and paperless trading.

### **The content of the FTA**

It is expected that the content of an FTA would be:

- WTO consistent, meaning among other principles that for merchandise trade the FTA must cover "substantially all trade", and services trade must have "substantial sectoral coverage" and eliminate "substantially all discrimination";
- WTO-plus, or in other words, deliver liberalisation more rapidly and fully than could otherwise be achieved through the WTO; and
- cover a similar scope to that of the Thailand-Australia FTA (TAFTA).

More specifically, TAFTA covers the following areas:

Tariff liberalisation on goods	Liberalised services trade
Standards and mutual recognition of conformity assessment	Investment Policy
Technical Barriers to Trade	Safeguard Measures
Customs Procedures	Sanitary and Phytosanitary Measures
Movement of business persons	Competition Policy
Intellectual Property	Rules of Origin
Anti Dumping and Countervailing Measures	Transparent Administration of Laws and Regulations
Government Procurement	Electronic Commerce
Institutions and Dispute Settlement	

### **Trade Policy in Malaysia**

Malaysia is an active member of the WTO and the Cairns Group, as well as the AFTA (Association of South-East Asian Nations (ASEAN) Free Trade Agreement) and Asia Pacific Economic Cooperation (APEC).

Malaysia is currently negotiating an FTA with Japan, and has announced it will look at an FTA with Korea. As with Australia, it is also undertaking parallel scoping studies on an FTA with New Zealand.

Malaysia, through its AFTA membership, is also party to discussions or negotiations for ASEAN-China, ASEAN-India, ASEAN-Japan, ASEAN-CER (Australia and New Zealand) and ASEAN-ROK.

This complex web of relationships has two important implications for Australia:

1. Australia must not fall behind its competitors in terms of preferential access to the Malaysian market; and
2. the provisions of a Malaysia-Australia FTA must deliver elements which can be harmonised wherever possible with the provisions of an AFTA-CER agreement.

### **The Trade Relationship**

The size of Malaysia's economy is roughly equivalent to that of Victoria's, and yet it is the world's 16<sup>th</sup> largest trading nation.

Malaysia is Australia's 10<sup>th</sup> largest trading partner, and our third largest trading partner in ASEAN. Australia's merchandise exports to Malaysia in 2003-2004 totalled A\$2,225 million, while merchandise imports from Malaysia totalled A\$6,930 million, leaving Australia a merchandise trade deficit with Malaysia of A\$2,480 million.

Primary and simply transformed manufactures (so called STMs) make up the bulk of Australia's exports to Malaysia. Australia has strong commodities and

services exports, while Malaysia has strong manufacturing exports. While sugar, wheat, dairy produce, pharmaceuticals and aluminium drive Australia's exports to Malaysia, Australia is Malaysia's third largest supplier of food.

<b>Top 5 exports to Malaysia</b>	<b>Top 5 imports from Malaysia</b>
Confidential items (mainly wheat & raw sugar) Copper Aluminium Milk and cream Medicaments (including veterinary)	Crude petroleum Computers Integrated circuits Telecommunications equipment Furniture

Australia is Malaysia's 11<sup>th</sup> largest export market and the 13<sup>th</sup> largest import source.

In terms of trade in services, Australia maintained a trade surplus in 2003-2004 of A\$257 million. Exports of services to Malaysia were A\$912 million and imports were A\$655 million. Australia's major services exports to Malaysia are travel services and education-related services, and the major service imported from Malaysia were transportation and travel services.

The strong people-to-people links between the two countries underpin the relationship:

- there are over 225 Australian businesses in Malaysia, including companies such as Leighton, Bluescope Steel, Ansell International, Boral and CSR;
- currently around 32,000 Malaysian students are studying in Australian institutions on and offshore;
- about 200,000 Malaysians have graduated from Australian universities, in most disciplines; and
- in 2003 there were over 155,000 short term visitor arrivals from Malaysia, making it Australia's second largest source of visitors from South East Asia, (behind Singapore with 253,000).

### **The Investment Relationship**

Malaysia's investment in Australia is 12 times greater than Australia's investment in Malaysia. Malaysian investment in Australia has increased rapidly since 1996, and has grown more rapidly than the total investment in Australia.

Total Malaysian investment in Australia was \$6.2 billion at the end of 2003, of which \$3.2 billion was direct investment. This is a sharp increase on levels in 1996 of A\$1.1 billion. In contrast, Australian investment in Malaysia was A\$485 million at the end of 2003, down from a peak of A\$1.6 billion in 1996.

A detailed sectoral breakdown of Malaysian investment in Australia is not available, however it is reasonable to assume that investment in property is a significant factor. That said there are major Malaysian investments in Australia in energy, agribusiness, manufacturing, real estate, hotels, travel agents and the gaming industry.

Australian business has shied away from investment in Malaysia to date due to the perception of difficulties in the political relationship between the two countries. (In practice however, Australian companies who have established operations in Malaysia have not reported that the business environment is adverse.) An FTA is likely to help overcome this perception of risk.

While Malaysian foreign investment rules have been liberalised somewhat in recent years, it also stands to reason that the restrictive investment environment in the past has limited Australian investments in Malaysia.

## KEY RECOMMENDATIONS

- 1. Ai Group welcomes the commencement of negotiations between the two countries and fully supports the conclusion of an equitable Australia - Malaysia FTA. The deal must however, deliver clear benefits to Australian industry.***

Through the last two decades of unilateral trade liberalisation, Australia has become one of the most open economies in the world with average tariffs at a little lower than 3.9%. As the scheduled tariff reductions in the automotive and TCF sectors take place over the next few years, this average will be lower still. Under these circumstances, it is imperative that Australia negotiates improved offshore market access to ensure the commercial realities of international trade are more equitable.

While FTAs are an excellent tool to obtain this critical market access, particularly in light of the slow progress of liberalisation under the WTO, each FTA must be assessed on its own merits. It is imperative that each FTA delivers a balance of benefits that is in Australian industry's favour.

Clearly, there are existing barriers to trade with Malaysia that could be gainfully addressed via an FTA.

- 2. Australia's goal must be to win access conditions for its exporters to the Malaysian market, which, as a minimum, matches the preferences awarded any of Malaysia's other trading partners.***

The rules and conditions of international trade have become more complex in recent years with the proliferation of preferential trade agreements. As Malaysia, for example, enters into bilateral and regional agreements, it has and will award preferential market access arrangements to treaty partners. As a result, countries are competitively advantaged or disadvantaged, depending on whether they have an agreement with Malaysia, and if so, according to the relative benefits they were able to obtain, and indeed, when they obtained them.

An FTA with Malaysia must deliver Australia a competitive advantage, or at the very least, equal rights to other countries with preferential access to the Malaysian market. This means any access rights accorded to Japan or Korea in potential FTAs with Malaysia, or China, India, Japan and Korea through regional AFTA agreements, should not leave Australia at a competitive disadvantage.

For example, in 2005 Malaysia's tariff rates for imported vehicles will drop to 20% for AFTA countries, as long as members meet the 40% local content requirement. By 2008, the tariff will drop to 5%. This is a considerable advantage against non-treaty countries that currently face tariffs up to 300% on vehicles.

From an Australian industry point of view, the positioning of China is of crucial importance. Australia should try to ensure that the AFTA-China agreement in particular should not be a means for China to out-manoeuvre Australia's competitive positioning in the Malaysian (or indeed other ASEAN) markets.

It is worth noting the findings of the Ai Group's survey on the impact of China on Australian manufacturing (refer "Australian Manufacturing and China: Opportunities and Challenges" available at [www.aigroup.asn.au](http://www.aigroup.asn.au)):

- Ai Group estimates the impact of China translates into a financial loss for the domestic manufacturing sector in the order of \$560 million over the past year (or 0.21% of total turnover);
- A significant element of this negative impact was the estimated loss of \$190 million as a result of Chinese competition in Australia's export markets.

**3. *The Agreement should be comprehensive, covering all sectors of trade, services and investment.***

In order for the Agreement to have real merit, it needs to cover all sectors of trade, services and investment. An effective agreement should weigh "whole of country" issues simultaneously.

Ai Group takes a rigorous position with regard to the definition of a WTO-compliant FTA, which stipulates, "substantially all trade" should move to free trade as well as "substantial sectoral coverage" in services trade to eliminate "substantially all discrimination". Exceptions to free trade should only be under highly limited and extenuating circumstances, in which the overall economic benefit to Australia remains clear.

Liberalisation of trade between Australia and Malaysia would also have a positive impact on the current round of negotiations in the WTO. Australia is a strong advocate of the WTO Doha Round negotiating mandate, and must therefore be seen to apply these principles rigorously if we do not wish to undermine our negotiating position within the WTO.

Further, the opportunity for greatest leverage would be lost if individual products or sectors should be re-visited outside initial bilateral FTA negotiations.

**4. *The FTA should deliver immediate tariff elimination on the largest number of products possible, while accommodating transitional arrangements for sensitive sub-sectors. For those items for which phased tariff reduction is necessary, zero tariffs should be achieved within a maximum of 10 years.***

While the overriding goal would be to eliminate tariffs on the largest possible number of tariff lines immediately, 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 chemical 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, a margin of preference allocated by Australia on Malaysian goods on items with retained tariffs, should be matched by Malaysia.

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.

As for the TCF industry, in 2005:

- apparel and certain finished textiles will reduce to 17.5% (from 25%),
- cotton sheets, footwear, carpet and woven fabrics to 10% (from 15%),
- sleeping bags, table linen and footwear parts to 7.5% (from 10%).

The 2005 rates will be frozen until 2010, at which time the 17.5% tariff lines will reduce to 10% and all other items to 5%. In 2014 all items will be at 5%.

As for tariffs on the Malaysian side, liberalisation will be of benefit to Australian exporters. While the average tariff is 9.3%, substantial tariff peaks remain, with 16% of tariff lines having tariffs above 20%.

For example motor vehicles face a 92% tariff, with certain lines up to 300%. Other examples include: aluminium plates, sheets, tubes etc (HS 7606) 30%; paints and varnishes 25%; flat rolled iron or non-alloy steel products 25%, copper wire 25%, chocolate 16%, wine RM120/decalitre.

The practical effect of a tariff elimination agreement with Thailand will be to nullify the current Tariff Concession System (TCS) impost of 3% duty on certain imports. The TCS is an Australian Government-imposed impediment to industry's global competitiveness, and as such Ai Group calls for the abolition of this scheme on all imports, including from Australia's non-FTA partners.

#### ***5. Rules of Origin should follow the product-specific methodology employed in the Thailand-Australia FTA.***

Extensive research undertaken by Ai Group has found that industry considers a Change in Tariff Classification (CTC) based methodology such as the one employed in the Thailand-Australia FTA (TAFTA) to be acceptable.

As Australia will employ the CTC based methodology in our FTAs with Thailand and the USA (and potentially with New Zealand in the future), we believe that a similar principle should be used in all future FTAs. It is desirable that we achieve the highest level of harmonization between the various trade agreements that Australia has or will be party to, so as to reduce the complexity of world trade rules in which Australian companies must operate.

The Rules of Origin (ROO) under TAFTA largely employ CTC tests to confer origin. In other words, CTC tests, which differ slightly for each tariff code, state that, if the imported inputs come from “different parts” of the Customs tariff schedule, then the finished product has undergone sufficient transformation to be deemed as originating. The classifications of the “different parts” of the tariff schedule from which imported inputs may be derived impacts the degree of tariff classification change required.

Some 15% of tariff lines have a local content percentage test applied in addition to the CTC test. The local content test utilises a so-called “Build-Down” formula, which starts at the customs value of the goods (excluding international transportation costs), and subtracts the value of the non-originating materials. The total is divided by the customs value to get the qualifying percentage.

***6. Transitional safeguards must be in place and readily accessible to support industry from import surges that cause or threaten to cause serious injury.***

WTO members may take a safeguard action (i.e., temporarily restrict imports of a product) to support a specific domestic industry from an increase in imports of any product which is causing, or which is threatening to cause, serious injury to domestic industry.

An import “surge” justifying safeguard action can (and should in this case) be a real increase in imports (an absolute increase); or an increase in the imports’ share of a shrinking market, even if the import quantity has not increased (relative increase).

Australian industry is looking to have in place strong safeguard provisions to provide manufacturing ready recourse against import surges from Malaysia. This tool of international trade is extremely important as it is one of the last few defensive measures available to industry, and can be invoked rapidly.

***7. Both countries’ rights to WTO-consistent anti-dumping and countervailing mechanisms should be preserved.***

Access to appropriate anti-dumping and countervailing mechanisms is essential to ensure industry is not disadvantaged as a result of unfair trading practices.

"Dumping" occurs when:

- a company exports its goods at a price below that of the sales price in the country of origin

- a company exports its goods at a price that is lower than the cost of production.

A "countervailing subsidy" occurs when:

- a government provides financial assistance to benefit the production, manufacture, or exportation of goods

If dumping or a countervailing subsidy is alleged, an investigation may be initiated, and ultimately, if the allegations are proven, duties will be assessed against imports of the product entering the country that initiated the investigation.

**8. *Elimination of non-tariff barriers and close attention to standards and conformity issues, to ensure equitable treatment.***

There should be a firm commitment in the FTA that both parties to the agreement will not apply non-tariff measures (except in cases where such measures are in accordance with GATT regulations) and will provide one another non-discriminatory treatment.

An area of particular concern when it comes to trade with Malaysia relates to transparency and administration of Customs procedures.

The Agreement should not only seek to simplify and harmonise customs procedures to foster trade but ensure practices are predictable, consistent and transparent and facilitate trade.

As with many aspects of Malaysian legislature, the Customs laws and regulations are considered to be appropriate, however their practical implementation is found to be somewhat lacking. Specifically:

- HS classifications of goods are not applied consistently;
- Lack of rigor in enforcing regulations; and
- Questionable expertise and practices across officials in the field.

The parties should also agree to work towards harmonisation of standards, including food standards. Particular attention needs to be given for example, to Halal standards, which are still being developed in Malaysia. Australia is an obvious and qualified raw material supplier to Malaysia's Halal food industry, and as such cooperative development of standards is critical to ensure Australia can maximize this opportunity.

Another area that is of particular concern relates to Technical Barriers to Trade – barriers that occur as a result of technical regulations and standards.

Technical Barriers are an impediment to free trade and investment, and as such a commitment to reciprocity and transparency is important. As with the yet to be ratified AUSFTA (Australia-US FTA) it will no doubt be necessary to establish an ongoing mechanism to facilitate communication and the exchange

of information on technical standards and regulations. It is particularly important that the mechanism provides a framework for exporters to work with government on tackling barriers. It is also vital that the mechanism include clear time frames and targets for progress, and sufficient impetus to achieve harmonisation with international norms, and mutual recognition of standards and conformance testing.

In general, the agreement should seek to facilitate trade and investment through cooperative efforts that minimise the impact of technical regulations and or assessments and build on mutual recognition arrangements. This includes:

- Working together wherever possible to harmonise respective technical regulations and seeking to accept as equivalent each other's technical regulations; and
- Making compatible wherever possible the conformity assessment procedures.

**9. Intellectual Property laws should be harmonised to ensure universal protection.**

Improved protection of intellectual property systems should be included in the FTA, and achieved via harmonisation of respective laws.

Harmonisation of the national intellectual property laws in export markets within agreed international frameworks (Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) administered under the WTO) is necessary to bring the benefits of intellectual property protection within the practical reach of Australian enterprises.

This offers the best mechanism to improve the global intellectual property environment for Australian companies.

As noted in Recommendation 8, industry generally acknowledges that the intellectual property laws in Malaysia are quite robust; the failing in the system falls to inadequate implementation of those laws. The abundance of pirated goods in Malaysia is clear evidence that work remains to be done to protect intellectual property rights.

Apart from significant problems in Malaysia with piracy of copyrighted materials (particularly optical media products), and sales of counterfeit pharmaceuticals, foreign companies have also suffered as a result of the manufacture and sale of counterfeit consumer products.

According to the US Government "*National Trade Estimates Report on Foreign Trade Barriers, 03/06/2004*" counterfeiting goes beyond luxury branded products to include a wide range of goods. These counterfeited goods are sometimes produced in Malaysia, but more often are brought into the country from China, Thailand and India. Further:

“Enforcement by the local government is hampered by lack of training and the scarcity of information about ongoing counterfeiting activities. Complicating enforcement of trademark-related violations is a Court of Appeals interpretation of the trademark law that requires enforcement officials have a “Trade Description Order” to conduct criminal raids when the counterfeit product seized is not identical to the trademarked original. Penalties meted out to offenders are small, although higher penalties have been adequately provided for in the Malaysian legal system.”

Clearly while Malaysia has tightened its laws on intellectual property, enforcement and prosecution remain an ongoing challenge.

#### ***10. Equitable access to Government procurement arrangements.***

In general terms, the Agreement should seek to impose practices which promote and apply transparency, open and effective competition, fair dealing, accountability and due process and non-discrimination in their government procurement practices.

Malaysian Government policy calls for procurement to be used to support national policy objectives, such as encouraging greater participation of Bumiputera in the economy, transferring technology to local industries, reducing the outflow of foreign exchange, creating opportunities for local companies in the service sector, and enhancing Malaysia’s export capabilities. As a result, foreign companies do not have the same opportunity as some local companies to compete for contracts and, in most cases, foreign companies are required to take on a local partner before their bids will be considered.

Australian industry has noted that the scrutiny of contracts in Malaysia, in particular, needs to be more transparent.

#### ***11. Barriers hindering bilateral investment flows to be removed and supported by provisions facilitating the temporary entry of business people.***

As in Australia’s other FTAs, an obligation to provide national treatment to the investors and investments of each Party (except where specific reservations are listed) should be followed. Protections against expropriation should be included as well as guarantees regarding full repatriation of funds.

While Malaysia encourages direct investment, particularly in export-oriented and high-tech industries, it retains considerable discretionary authority over individual investments. This is especially the case when the investment is aimed at the domestic market, and the Government has used this authority to restrict foreign investment to around 30% and to require foreign firms to enter into joint ventures with local partners.

Most foreign firms also face restrictions in the number of expatriate workers they are allowed to employ. Manufacturing companies with foreign paid-up capital of at least US\$2 million receive automatic approval for up to 10 expatriate posts.

Provisions facilitating the temporary entry of business people (and their families) are also important in achieving the benefits of the investment provisions. While the issuance of work-visas is not considered a barrier at the present time, Australian industry wishes to see that any privileges extended by Australia are matched by Malaysia.

***12. Review mechanisms to be incorporated into the Agreement to ensure that as the Agreement evolves, it continues to facilitate trade and investment to the fullest extent possible.***

It is important that industry representatives are party to review mechanisms in the course of each year, so that they can feed vital information into the annual Ministerial review process. We suggest that such review mechanisms that involve industry could meet quarterly to monitor the progress of the agreement and identify where the impediments to trade and investment continue to be, as the relationship develops.

***13. The negotiations must be integrated with Australia's global trade strategy encompassing simultaneously multilateral, sub-regional and bilateral activities.***

Ai Group believes any FTA with Malaysia must not only stand on its own merits, but also be complementary to Australia's position in negotiations in simultaneous multilateral, sub-regional and bilateral activities.

The Australian Government is clearly committed to progressing WTO negotiations to achieve liberalisation and expansion of international trade under agreed and enforceable rules for reciprocal benefit. Simultaneously, Australian Government policy holds that pursuing FTAs is favoured if there are clear commercial and trade policy benefits and if better results can be secured more quickly than is possible in the WTO negotiations. FTAs clearly should be consistent with WTO guidelines.

The WTO and the multilateral trading system have generated significant benefits for Australia and the world economy. Since World War II average tariffs on manufactured goods in industrialised countries have fallen from 40% to 4%. In the same period, whilst there has been some growth in non-tariff barriers, world trade has increased 18-fold.

The role of the WTO is an evolving one to some extent, and with membership of over 140 countries, over two-thirds of which are made up of developing countries, reaching final agreements can be a time consuming process.

While Australia has seen advantage to date in complementing its multilateral and subregional trade action with bilateral FTAs, nonetheless Ai Group reiterates to Government the critical importance in simultaneously progressing all these avenues in order to improve market access for Australian industry.