

**CANADA AND THE AUSTRALIA-US FREE TRADE AGREEMENT:
ENHANCED OPPORTUNITIES OR LOSS OF SPECIAL STATUS?**

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Executive Summary

Australia and the United States have made considerable progress in their negotiations to establish an Australian-US Free Trade Agreement (AUSFTA). Despite the North American Free Trade Agreement (NAFTA), the US has not traditionally emphasized bilateral or regional trade agreements, instead concentrating on trade liberalization within the multilateral GATT/WTO framework. In recent years, however, and in particular during the current Bush Administration, there has been a major shift toward bilateral trade agreements. In part, the US administration sees these trade agreements as part of its broad international foreign policy, which has been focused on security issues since the events of 9/11/01. A more open trading regime leads to stronger economic growth which makes “right thinking” trading partners better able to contribute to the “war on terrorism”. Hence, Australia’s strong and consistent support of the US over Iraq bodes well for the successful completion of the AUSFTA negotiations. While New Zealand has expressed interest in negotiating a bilateral trade agreement with the US, as yet the US has not considered it a priority. The New Zealand market is small, and New Zealand has not been a strong supporter of other US foreign policy initiatives.

The spectre of an agreement to liberalize trade between the US and Australia raises questions as to the likely effects on Canada’s trade with both countries. Analyzing the effects of the AUSFTA is, however, complicated because, while Australia’s “political stock” may be high in Washington at the moment, that does not mean that US protectionist influences have necessarily been diminished in deference to the “war on terrorism”. As a result, US industries that are not competitive internationally – so-called “sensitive industries” – may still be excluded from any bargain struck between the US and Australia, or the concessions agreed to for these industries may be small and/or phased in over a very long period. Thus, as the AUSFTA has not yet been finalized, it is not possible to fully assess the effects on Canadian trade.

As a NAFTA partner, Canada enjoys a “special (protected) status” in the US market. Under the terms of the NAFTA, most Canadian products receive duty free access to the US market. While this is a well-recognized benefit of the NAFTA, what is less well recognized is that Canadian products sold in the US market are protected from foreign competition by US tariffs and non-tariff barriers. As other countries receive better access to the US market through the negotiation of agreements such as the AUSFTA, Canada’s “special status” will be eroded. The degree to which the “special status” will be eroded will depend on the overlap of the NAFTA and the AUSFTA and the ability of individual Australian products to compete against Canadian products in the US market. Further, the US will gain “special status” that Canada does not enjoy in the Australian market that could threaten current Canadian exports to Australia. In some products, Canada benefits from lower tariffs arising from longstanding

Commonwealth Preferences that are not enjoyed by the US. The AUSFTA will give the US better access to the Australian market than are provided by the Commonwealth Preferences. Canada will, however, retain this preferred access relative to the rest of the world. Counterbalancing these possible threats to Canadian exporters is the expected rise in economic activity resulting from the further opening of the US and Australian markets. This opening will allow firms to take advantage of opportunities to specialize in production and engage in unfettered international transactions.

Given that the US economy is 25 times larger than the Australian economy (US\$10300 billion versus US\$410 billion) and 14 times larger than the Canadian economy (US\$725 billion) the total effect of the AUSFTA on Canadian trade is likely to be small. Further, Canada will still enjoy the advantages that arise from geographic proximity and familiarity that will mitigate, to some degree, the erosion in special status. Some of Canada's major export sectors, such as automobiles, will also retain their "special status", because Australia is unlikely ever to be a major exporter of cars to the US even if all import barriers are removed. Australia is not a major producer of either lumber or pulp and paper. It does not have an aircraft industry. In the energy industry, exports of electricity depend on contiguity with the US, while growing US dependence on petroleum imports is increasing sufficiently rapidly to allow for future export growth for both Canada and Australia.

In the case of metals and minerals, including aluminum, Canada can expect stiff competition in the US market from Australian products as trade barriers are removed. This competition will not only be in the trade in goods but also for sources of investment funds.

In the case of beef, at least prior the discovery of BSE in Canada, Canada is quite export dependant on the US market. If Australia can secure exemption from the existing tariff rate quota, Canada can expect increased competition from Australian beef. The degree of competition will depend upon the ability of Australia to increase the quality of its beef. Considerable resistance to the opening of the US market can, however, be expected from US cattle producers. In the case of pork, Canada has been able to gain access to the Australian market while the US product has been denied access on sanitary grounds that are perceived by some as an unfair trade barrier. If the US can have the pork import ban lifted, Canada can expect stiff US competition in the Australian market.

In the broad and diverse category of machinery, there are likely to be some areas where the US will gain an advantage over existing Canadian exporters as a result of the preferred access gained by US firms in the Australian market. The same is true for telephone equipment, a highly competitive, relatively low margin business, where escaping Australian tariffs in the 5-6 percent range can endow a competitive advantage. Reductions of US tariffs in a similar range may allow Australia to increase

its market share in the US chemicals market.

As the Australian services market is already relatively open, US firms are unlikely to gain any particular advantage over Canadian firms in the Australian market as a result of the AUSFTA. There may be some investment diversion as US capital moves out of the Canadian market and into the Australian market. If the US can gain national treatment for investors, the attractiveness of the Australian market will increase. Further, simply having an AUSFTA will raise the profile of Australia as a destination for investment. This will be enhanced because projections of Australian economic performance are more positive than those for Canada.

As Canada has preferential access to the US market through NAFTA, and New Zealand has preferential access to the Australian market through the ANZCERTA, the possibility for tariff circumvention exists for both countries, with Canada gaining access to the Australian market through the US, and New Zealand gaining access to the US market by transshipping through Australia. Thus it will be important to monitor the "rules of origin" provisions of the AUSFTA.

In general, given the enormous large size of the US market and the relative openness of the current US-Australian relationship, Canada should not expect any major changes to arise if the AUSFTA is concluded. Further, as with all trade agreements there will be a long phase-in period, particularly for politically sensitive sectors. Thus, Canada's existing "special status" in the US market that arises from the NAFTA will only be slowly eroded. If, subsequently, the US and New Zealand agree to negotiate a bilateral trade agreement, Canada will have to assess the effects of that agreement in light of the AUSFTA and its implications.

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LIST OF ACRONYMS

| | |
|----------|--|
| AAFC | Agriculture and Agri-food Canada |
| ABARE | Australian Bureau of Agricultural and Resource Economics |
| ANZCERTA | Australia New Zealand Closer Economic Relations Trade Agreement |
| APEC | Asia-Pacific Economic Cooperation Forum |
| AUSFTA | Australia US Free Trade Agreement |
| BSE | Bovine Spongiform Encephalitis |
| CANATA | Canada and Australia Trade Agreement |
| CER | Closer Economic Relations Agreement (between Australia and New Zealand – same as ANZCERTA) |
| CP | Commonwealth Preferences |
| DFAIT | Department of Foreign Affairs and International Trade (Canada) |
| DFAT | Department of Foreign Affairs and Trade (Australia) |
| EU | European Union |
| FDI | Foreign direct investment |
| FIPA | Foreign Investment Protection Agreement |
| FIRB | Foreign Investment Review Board (Australia) |
| FSANZ | Food Standards Australia New Zealand |
| FTA | Free trade agreement |
| FTAA | Free Trade Agreement of the Americas |
| GATS | General Agreement on Trade in Services |
| GDP | Gross Domestic Product |
| GM | Genetically modified |
| GMO | Genetically modified organism |
| HRI | Hotel, restaurant, institutional |
| HS | Harmonized Standard |
| ICT | Information & communications technology |
| IMF | International Monetary Fund |
| IRA | Import risk analysis |
| IT | Information technology |
| MFN | Most Favored Nation |
| MNE | Multinational enterprise |
| MRA | Mutual Recognition Agreement |
| NAFTA | North American Free Trade Agreement |
| NZUSFTA | possible New Zealand US Free Trade Agreement |
| OECD | Organization for Economic Cooperation and Development |
| PBS | Pharma Benefit Scheme (Australia) |
| PMV | Passenger motor vehicle |
| SPS | Sanitary and Phytosanitary Regulations |
| STE | State trading enterprise |
| SUV | Sport utility vehicle |
| TBT | Technical barriers to trade |

LIST OF ACRONYMS Continued

| | |
|------|---|
| TCF | Textiles, clothing and footwear |
| TECA | Trade and Economic Cooperation Agreement (Canada) |
| TRQ | Tariff rate quota |
| USTR | Office of the United States Trade Representative |
| WEA | Wheat Export Authority (Australia) |
| WTO | World Trade Organization |

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1.0 INTRODUCTION

As Australia and the US commence the fourth round of their free trade agreement (hereafter AUSFTA) negotiations in Canberra, October 2003, the implications of the eventual AUSFTA for Canada's trade with both the Antipodes and the US need to be assessed. Given the close relationship and formal free trade agreement between Australia and New Zealand, the Canadian pattern of trade with New Zealand may also be affected by the AUSFTA. Hence, this study will focus first on Canada's trade with Australia, then with New Zealand. The effects on Canada-US trade will also be examined.

While debate and negotiations continue in Australia and the US regarding the economic costs and benefits of the FTA, nations not party to the FTA look on as concerned observers. In Canada's case, an analysis of this new proposed FTA's impacts on its trade in goods, services and investment with Australia, New Zealand and the US is important, such that measures can be taken by both the private and public sectors to ensure any opportunities created can be exploited to the fullest. Further, it will be important for Canadian firms to prepare for any adverse effects on their markets as a result of the AUSFTA. Trade patterns may change for Canada, and Canadians must at least be aware of these potential changes to competitiveness, and prepare to minimize any potential impacts.

This study will focus on these specific economic implications, rather than provide a general discussion of the ongoing negotiations and the trade policy debate regarding the merits of the FTA for Australia.

When countries join together in regional trade agreements such as the NAFTA, they expect trade expansion among the members of the agreement. Part of the trade arises from taking down trade barriers between the members. However, part [is attributed to the increased relative competitiveness of domestic firms, which no longer have to pay tariffs, compared to exporters from countries that are not part of the agreement. In short, imports from firms in member states replace imports from non-member states. Non-member states are said to suffer from trade diversion as a result of the establishment of the regional trade agreement¹. Members of such agreements, therefore, enjoy a "special status" – in fact a "special protected status" – because they have preferred access to each other's markets.

When another country joins an existing regional trade agreement, it will gain the "special status", relative to all other non-members, but the existing members lose their protection from competition from products originating from the new member. This is the prospect Canada faces if the US and Australia sign a free trade agreement. This will give Australia preferred access to the US market, similar to that enjoyed by Canada as a result of NAFTA, although differences in access to the US market will remain, depending on the differences in the scope of the NAFTA and the AUSFTA. The increase in total economic activity that will arise from the removal of most trade barriers between the US and Australia however will provide new opportunities for Canadian firms. Thus, both the positive trade-creating effects for

¹ Kerr, W.A. and Perdakis, N. (2003) *The Economics of International Business – A Guide to the Global Commercial Environment*, Estey Centre Program in International Trade Education, Estey Centre for Law and Economics in International Trade, Saskatoon.

Canada arising from the AUSFTA and the “loss of special status” need to be considered by Canadian firms and government agencies interested in fostering Canadian trade.

In fact, there is a complex web of trade agreements that will influence trade patterns if an AUSFTA is negotiated. Not only is the US involved in NAFTA with Canada and Mexico but Australia has a long-standing free trade agreement with New Zealand – the Closer Economic Relations (CER). As a result, Canadian trade patterns with New Zealand also have to be considered when the AUSFTA is assessed.

2.0 OVERVIEW OF TRADE RELATIONS - Triangle or a Hub with Two Spokes?

Canada and Australia are both endowed with abundant natural resources, relatively sparse but well educated populations, and a high level of technical competence. As a result, Canada and Australia might be expected to be competitors in the US market, with few trade opportunities provided by bilateral comparative advantage. Thus, at first glance, both Canada and Australia's trading patterns might appear to be two spokes connecting to a US hub rather than a strong triangular relationship. Further, Australia shares similar characteristics as Canada in the global trading arena, with economies heavily reliant upon trade. Both have actively pursued trade liberalization via the WTO, APEC and Cairns Group memberships.

Canadian exports to Australia totaled Cdn\$1.1 billion in 2002, while Canadian imports from Australia amounted to Cdn\$1.7 billion. Canadian export successes in Australia continue to be oriented toward fully manufactured goods, including aircraft and automobile parts. Pork and lumber are also among the major Canadian exports to Australia.² Canada is Australia's 16th-largest trading partner (A\$3.6 billion, with an exchange rate of A\$1 = Cdn\$ 0.8985 in June 2003) and 16th-largest destination for Australia's merchandise exports. Canada is an important market for Australian services exports, which totaled A\$390 million in 2002. Eighty percent of this trade in services is comprised of tourism and travel-related expenditures. Australia's service imports sourced from Canada amounted to A\$369 million, consisting again primarily of travel related expenditures.³

Investment ties between Australia and Canada are substantial. In 2001, Canadian direct investment in Australia amounted to \$3.4 billion and foreign direct investment (FDI) in Canada from Australia was \$1.6 billion.⁴ Canada is the 11th largest destination for Australian FDI, mainly in the mining, transportation and packaging sectors. Canada reciprocates this with substantial investments in Australian mining and energy, engineering, food processing, computer software and media and communications. Canadian investment in Australia stood at A\$4.17 billion, the 12th largest source of foreign investment.⁵

² Dept of Foreign Affairs and International Trade (DFAIT), *Opening Doors to the World: Canada's International Market Access Priorities 2003*

³ Canada Country Brief, Australian Dept of Foreign Affairs and Trade, March 2003

⁴ DFAIT, *Opening Doors to the World: Canada's International Market Access Priorities 2003*

⁵ Canada Country Brief, Australian Dept of Foreign Affairs and Trade, March 2003

Canada and Australia share similar legal and regulatory systems, comparable federal structures and a long-established trading relationship extending over 100 years. Most trade between the two countries takes place at most-favored-nation (MFN) rates and a substantial amount benefits from duty-free access.⁶ In addition, preferential tariff rates on a number of products have been agreed under the Canada-Australia Trade Agreement (CANATA). Based on former Commonwealth Preferences (CP), CANATA (established in 1960 and amended in 1973) has limited coverage and many of the items have, over time, experienced diminished commercial significance.⁷

While the Canada-Australia relationship is prosperous, friendly and mature, with growth potential, this relationship dwarfs in comparison with their respective trade with the US.

Canada and the US are each other's largest trading partners as, on a daily basis, US\$1.2 billion in trade crosses the Canada-US border. For Canada, the US dominates the export market with roughly 87% of Canadian exports headed for the US market. At about US\$ 188 billion, Canada supplied 16.5 percent of all US imports of goods and services. Canada bought 19 percent of all US exports of goods and services. The US is the largest foreign investor in Canada and the most popular destination for Canadian investment.⁸

Not surprisingly, the US is also Australia's second largest merchandise export market, after Japan, the most important market for services and the largest source of imports of both goods and services. Two-way merchandise trade was A\$34.7 billion in 2002⁹. Australian exports to the US account for roughly 11 percent of total Australian exports and the US is the source of nearly one-fifth of Australia's imports. By contrast, US exports to Australia account for just 1.6 percent of total US exports and Australia is the source of only 0.7 percent of US imports¹⁰.

Although Canada and Australia have similar sized economies, both export-dependent, the size, value and importance of Canada's trading relationship with the US is far greater than Australia's. This difference will determine the extent to which the AUSFTA affects Canadian trade with the US. Of course, the growth of Australia's trade with the US has been inhibited because it does not have unfettered access to the US market, unlike the case of Canada.

It is, therefore, essential to have a perspective on the relative size of the Australian economy. Given that Australia's national output is roughly four percent of US GDP, uninhibited access to such a large market means that the AUSFTA has the potential to deliver significant welfare gains to Australia. For the US, however, the benefits from AUSFTA may be less obvious. The size of economic benefits accruing to either party will depend on:

- The relative importance of each country as a trading partner;
- Current trade patterns;
- The size of existing trade barriers; and

⁶ DFAIT, *Opening Doors to the World: Canada's International Market Access Priorities 2003*

⁷ Australia - Canada Relations, Australian Dept of Foreign Affairs and Trade

⁸ DFAIT Briefing, Australia and Canada Factsheet Trade and Economy

⁹ Australian Dept of Foreign Affairs and Trade (DFAT) Australia-US Relations,

¹⁰ Centre for International Economics, *Economic Impacts of an Australia-US Free Trade Area*, prepared for DFAT, June 2001

- the extent to which the FTA will stimulate trade creation as opposed to trade diversion¹¹.

These criteria for economic benefit will also have a crucial impact on third parties such as Canada. The implications of the AUSFTA are three-fold. Firstly, the agreement will potentially affect Canadian trade with Australia where the US can become a significant competitor to Canadian products and services. Secondly, the AUSFTA could enable Australia to become a greater competitor to Canadian products and services exports into the US market. Finally, the AUSFTA could draw inbound FDI sourced from either the US or Australia away from Canada.

3.0 AUSTRALIA- US TRADE – A Snapshot

Table 1 presents Australia's Top 10 trading partners in goods and services for 2001-02. Canada does not rank in the Top 10 while the central position of the US to the Australian economy, as it is the 2nd most important trading partner is clear. The AUSFTA is expected to solidify this relationship by ensuring Australian products' market access to the large US market.

¹¹ Centre for International Economics, *Economic Impacts of an Australia-US Free Trade Area*, prepared for DFAT, June 2001

**Table 1. Australia's Top 10 Goods & Services Trading Partners, (A\$ millions),
2001-02**

| Country | Goods | Services | Total | Share | Rank |
|--|----------------|-----------------|----------------|--------------|-------------|
| Japan | 22,967 | 3,343 | 26,310 | 17.3% | 1 |
| United States of America | 12,168 | 4,662 | 16,830 | 11.0% | 2 |
| Republic of Korea | 9,900 | 780 | 10,680 | 7.0% | 3 |
| New Zealand | 7,713 | 2,116 | 9,829 | 6.4% | 4 |
| China | 7,864 | 875 | 8,739 | 5.7% | 5 |
| United Kingdom | 5,236 | 3,489 | 8,725 | 5.7% | 6 |
| Singapore | 4,980 | 2,172 | 7,152 | 4.7% | 7 |
| Hong Kong | 4,041 | 1,460 | 5,501 | 3.6% | 8 |
| Taiwan | 4,888 | 359 | 5,247 | 3.4% | 9 |
| Indonesia | 3,219 | 962 | 4,181 | 2.7% | 10 |
| Total Exports | 121,199 | 31,197 | 152,396 | | |
| Top Ten Import Sources in 2001-02 | | | | | |
| | Goods | Services | Total | Share | Rank |
| United States of America | 21,966 | 5,931 | 27,897 | 18.1% | 1 |
| Japan | 15,675 | 1,750 | 17,425 | 11.3% | 2 |
| China | 11,366 | 805 | 12,171 | 7.9% | 3 |
| United Kingdom | 6,280 | 3,593 | 9,873 | 6.4% | 4 |
| Germany | 6,809 | 1,273 | 8,082 | 5.2% | 5 |
| Singapore | 4,099 | 2,375 | 6,474 | 4.2% | 6 |
| New Zealand | 4,793 | 1,644 | 6,437 | 4.2% | 7 |
| Republic of Korea | 4,936 | 302 | 5,238 | 3.4% | 8 |
| Indonesia | 4,136 | 638 | 4,774 | 3.1% | 9 |
| Malaysia | 3,905 | 788 | 4,693 | 3.0% | 10 |
| Total Imports | 121,927 | 32,042 | 153,969 | | |
| Top Ten Trading partners in 2001-02 | | | | | |
| | Goods | Services | Total | Share | Rank |
| United States of America | 34,134 | 10,593 | 44,727 | 14.6% | 1 |
| Japan | 38,642 | 5,093 | 43,735 | 14.3% | 2 |
| China | 19,230 | 1,680 | 20,910 | 6.8% | 3 |
| United Kingdom | 11,516 | 7,082 | 18,598 | 6.1% | 4 |
| New Zealand | 12,506 | 3,760 | 16,266 | 5.3% | 5 |
| Republic of Korea | 14,836 | 1,082 | 15,918 | 5.2% | 6 |
| Singapore | 9,079 | 4,547 | 13,626 | 4.4% | 7 |
| Germany | 8,162 | 2,048 | 10,210 | 3.3% | 8 |
| Indonesia | 7,355 | 1,600 | 8,955 | 2.9% | 9 |
| Hong Kong | 5,462 | 3,417 | 8,879 | 2.9% | 10 |
| Total Trade | 243,126 | 63,239 | 306,365 | | |

Source: Trade in Services, Australia, 2001-02, Market Information and Analysis Section, Department of Foreign Affairs and Trade, Government of Australia, April 2003

Table 2 details the most important US exports to Australia by HS¹² Chapter for the years 1998 – 2002. High-tech products — aviation, computers and telecommunications equipment — account for 21 percent of US exports to Australia. US imports from Australia are largely primary products of which beef represents (7 percent), other agriculture (5 percent) and metals (6 percent). Only 2 percent of Australia's imports from the US are primary products¹³. Table 3 reports the most important US imports from Australia.

Merchandise trade between Australia and the US, particularly in manufactures is relatively open, with most tariff lines bound. Average tariffs for the US are 2.8 percent, with over one-third of all tariff lines duty free, although the US does maintain a number of specific tariffs and tariff rate quotas (TRQ) not reflected in this figure. Australia's tariff regime is similarly open with rates varying between 0 and 5 percent for 85 percent of items and an average tariff rate of 3.8 percent. Ninety-four percent of Australia's tariff lines are bound by WTO Agreements¹⁴.

¹² Both export and import statistics are classified and published according to the Harmonized Commodity Description and Coding System or Harmonized System (HS) and country-specific extensions thereof. The Harmonized System is an international commodity classification (with six-digits codes). The nomenclature is divided into 21 Sections, which (in general) group goods produced in the same sector of the economy. Each Section is comprised of one or more Chapters, with the entire nomenclature being composed of 97 Chapters. Chapter 77 is reserved for possible future use; and Chapters 98 and 99 are used for administrative purposes to record special transactions.

¹³ Centre for International Economics, *Economic Impacts of an Australia-US Free Trade Area*, prepared for DFAT, June 2001

¹⁴ Centre for International Economics, *Economic Impacts of an Australia-US Free Trade Area*, prepared for DFAT, June 2001

Table 2

| US Top Exports to Australia, %, 1998 - 2002 | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| 88 - Aircrafts and Spacecrafts | 7.22% | 10.24% | 9.48% | 9.04% | 24.08% |
| 84 - Nuclear Reactors, Boilers, Machinery and Mechanical Appliances | 25.37% | 26.49% | 25.65% | 26.68% | 20.32% |
| 87 - Motor Vehicles, Trailers, Bicycles, Motorcycles and Other Similar Vehicles | 9.15% | 7.56% | 8.69% | 8.76% | 8.38% |
| 85 - Electrical or Electronic Machinery and Equipment | 8.15% | 8.83% | 10.93% | 8.94% | 7.93% |
| 90 - Optical, Medical, Photographic, Scientific and Technical Instrumentation | 6.52% | 6.81% | 6.57% | 7.70% | 6.37% |
| 30 - Pharmaceutical Products | 1.87% | 1.93% | 2.50% | 2.63% | 2.91% |
| 39 - Plastics and Articles Thereof | 3.17% | 3.29% | 3.19% | 3.36% | 2.86% |
| 38 - Miscellaneous Chemical Products | 1.86% | 1.76% | 1.79% | 2.02% | 1.72% |
| 29 - Organic Chemicals (Including Vitamins, Alkaloids and Antibiotics) | 3.45% | 3.07% | 2.95% | 3.18% | 1.71% |
| 31 - Fertilizers | 2.32% | 2.03% | 1.55% | 1.89% | 1.42% |
| 48 - Paper, Paperboard and Articles Made From These Materials | 1.81% | 1.65% | 1.50% | 1.60% | 1.35% |
| 49 - Printed Books, Newspapers, Pictures, Manuscripts and The Like | 1.86% | 1.75% | 1.49% | 1.50% | 1.29% |
| 27 - Mineral Fuels, Mineral Oils, Bituminous Substances and Mineral Waxes | 1.19% | 1.12% | 1.04% | 1.28% | 1.23% |
| 33 - Essential Oils and Resinoids, Perfumes, Cosmetics and Toilet Preparations | 0.93% | 0.98% | 1.04% | 1.51% | 1.02% |
| 95 - Toys, Games, Sporting Goods and Other Goods for Amusement | 0.84% | 0.79% | 1.00% | 1.00% | 0.93% |
| 40 - Rubber and Articles Thereof | 0.87% | 0.86% | 0.80% | 0.88% | 0.84% |
| 37 - Photographic or Cinematographic Goods | 1.48% | 1.32% | 1.16% | 0.71% | 0.64% |
| 28 - Inorganic Chemicals and Compounds of Precious Metals and Radioactive Elements | 0.72% | 0.65% | 0.82% | 0.99% | 0.60% |
| 82 - Tools, Implements, Cutlery, Spoons and Forks of Base Metals | 0.56% | 0.57% | 0.58% | 0.66% | 0.59% |
| 23 - Residues and Waste from the Food Industries, and Prepared Animal Fodder | 0.36% | 0.44% | 0.45% | 0.51% | 0.54% |
| 73 - Articles of Iron or Steel | 0.60% | 0.48% | 0.49% | 0.53% | 0.51% |
| 86 - Rail Transportation (Incl. Tramways and Traffic Signaling Equipment) | 0.50% | 0.77% | 0.39% | 0.51% | 0.49% |
| 22 - Beverages, Spirits and Vinegar | 0.40% | 0.43% | 0.45% | 0.63% | 0.48% |
| 71 - Pearls, Precious Stones or Metals, Coins and Jewelry | 4.51% | 2.33% | 1.15% | 0.27% | 0.47% |
| 32 - Tannins, Dyes, Pigments, Paints, Varnishes, Inks, Putty and Other Similar Substances | 0.49% | 0.47% | 0.45% | 0.46% | 0.42% |
| SUB-TOTAL | 86.25% | 86.62% | 86.10% | 87.24% | 89.10% |
| OTHERS | 13.75% | 13.38% | 13.90% | 12.76% | 10.90% |
| TOTAL (ALL PRODUCTS) | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Source: Industry Canada, Strategis database

Table 3.

| US Top Imports from Australia, %, 1998 - 2002 | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| 02 - Meat and Edible Meat Offal | 10.65% | 11.79% | 12.79% | 16.16% | 16.51% |
| 27 - Mineral Fuels, Mineral Oils, Bituminous Substances and Mineral Waxes | 6.87% | 6.29% | 10.51% | 7.36% | 9.50% |
| 87 - Motor Vehicles, Trailers, Bicycles, Motorcycles and Other Similar Vehicles | 4.92% | 6.13% | 6.55% | 6.70% | 7.83% |
| 22 - Beverages, Spirits and Vinegar | 2.85% | 3.90% | 4.40% | 5.39% | 7.13% |
| 28 - Inorganic Chemicals and Compounds of Precious Metals and Radioactive Elements | 11.27% | 10.31% | 9.35% | 6.00% | 5.37% |
| 84 - Nuclear Reactors, Boilers, Machinery and Mechanical Appliances | 5.65% | 6.56% | 5.37% | 5.00% | 4.74% |
| 90 - Optical, Medical, Photographic, Scientific and Technical Instrumentation | 2.98% | 4.38% | 4.84% | 5.22% | 4.74% |
| 26 - Ores, Slag and Ash | 2.75% | 2.78% | 3.85% | 3.58% | 3.77% |
| 61 - Knitted or Crocheted Clothing and Articles of Apparel | 1.23% | 2.38% | 2.61% | 3.21% | 3.59% |
| 85 - Electrical or Electronic Machinery and Equipment | 2.59% | 2.70% | 3.39% | 2.99% | 2.65% |
| 72 - Iron and Steel | 4.92% | 3.78% | 3.47% | 2.50% | 2.59% |
| 76 - Aluminum and Articles Thereof | 1.67% | 1.71% | 0.78% | 2.99% | 2.26% |
| 30 - Pharmaceutical Products | 0.66% | 1.21% | 0.88% | 2.50% | 2.07% |
| 88 - Aircrafts and Spacecrafts | 2.84% | 2.60% | 1.63% | 2.03% | 1.72% |
| 71 - Pearls, Precious Stones or Metals, Coins and Jewelry | 11.40% | 3.59% | 1.47% | 1.52% | 1.67% |
| 75 - Nickel and Articles Thereof | 1.71% | 1.47% | 2.12% | 1.87% | 1.21% |
| 03 - Fish, Crustaceans, Molluscs and Other Aquatic Invertebrates | 1.43% | 1.51% | 1.35% | 1.08% | 1.17% |
| 17 - Sugars and Sugar Confectionery | 1.17% | 0.73% | 0.69% | 0.70% | 0.75% |
| 73 - Articles of Iron or Steel | 0.43% | 0.61% | 0.51% | 0.58% | 0.69% |
| 48 - Paper, Paperboard and Articles Made From These Materials | 0.09% | 0.18% | 0.30% | 0.38% | 0.63% |
| 35 - Albuminoidal Substances, Modified Starches, Glues and Enzymes | 0.51% | 0.59% | 0.56% | 0.59% | 0.63% |
| 95 - Toys, Games, Sporting Goods and Other Goods for Amusement | 0.31% | 0.27% | 0.36% | 0.46% | 0.62% |
| 12 - Oil Seeds, Oleaginous Fruits, Industrial or Medicinal Plants, Straw and Fodder | 0.49% | 0.76% | 0.75% | 0.75% | 0.61% |
| 08 - Edible Fruits and Nuts | 0.97% | 0.94% | 0.89% | 0.60% | 0.58% |
| 89 - Ships, Boats and Floating Structures | 0.52% | 0.47% | 0.52% | 0.77% | 0.56% |
| SUB-TOTAL | 80.88% | 77.64% | 79.93% | 80.92% | 83.59% |
| OTHERS | 19.12% | 22.36% | 20.07% | 19.08% | 16.41% |
| TOTAL (ALL PRODUCTS) | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Source: Industry Canada, Strategis database

Notwithstanding the relative openness of the US and Australian economies by world standards, there are important sectors in which there are major barriers to bilateral trade in both economies. The aim of the AUSFTA is to reduce these barriers. Table 4 provides a summary of the main trade-related concerns for both countries.

Table 4. Comparison of Respective US and Australian Trade Interests

| Issue | US interest in Australian positions | Australian interest in US positions |
|-------------------------------|--|--|
| Tariffs | Lower remaining Australian tariffs. | Lower high US tariffs, particularly in agriculture. |
| Agriculture | Remove AWB's single desk export monopoly. Expedite review of quarantine bans on imports of chicken, pork, Florida citrus, stone fruits, corn, apples, Californian table grapes. | Remove non-tariff restrictions, usually tariff quotas, on imports of sugar, dairy, cotton and beef. Secure US compliance with WTO directive to remove safeguards controls on lamb. Secure removal of domestic and export subsidies on grains, sugar, dairy products. |
| Subsidies | Ensure consistency of subsidies for automobile and clothing and textiles with WTO requirements. | See above. |
| Anti-dumping | | Address potential punitive effects of anti-dumping procedures. |
| Countervailing | | Address punitive effects of imposition of countervailing duties on subsidized imports. |
| Investment | Remove discretion to deny foreign investment on grounds of "national interest". | |
| Government procurement | Secure Australian membership of the WTO Government Procurement Agreement limiting preferment to national supplies. | |
| Maritime Transport | | Secure removal of ban on use of foreign built and owned ships for seaborne commerce between points in the US. |
| Air services | Secure 'open skies' for air services. | |
| Telecommunications | Remove restrictions on broadcasting on broadband. | Ensure Australian carriers are charged fair accounting rates and Internet access rates. |

Table 4 continued.

| | | |
|------------------------------|--|--|
| Business services | Secure recognition of US professional qualifications. | Remove restrictions, such as skill and residency testing procedures, on Australian professionals, such as engineers, accountants and architects. |
| Intellectual Property | <p>Restrict parallel importing of recorded music and branded goods.</p> <p>Concern about laws permitting de-compilation of software.</p> <p>Concern about adequacy of protection for test data for pharmaceuticals.</p> <p>Concern that civil rather than criminal remedies are favoured for abuse of copyright or music</p> | |
| Cultural industries | Secure removal of measures to protect domestic cultural industries such as local content rules for broadcasting. | |

Source: *An Australia–USA Free Trade Agreement: Issues and Implications*, The Australian APEC Study Centre, Monash University, August 2001, p33-34

3.1 Services and Investments

Since 1991-92, Australia's trade in services has increased by an average of 7 percent annually, with exports increasing by an average 8 percent and imports by an average 6 percent. The US was the single largest destination for Australia's exports of services in 2001-02. These imports were valued at A\$4.7 billion, (15 percent of total exports of services). The United Kingdom was the second largest destination, accounting for exports valued at A\$3.5 billion. The US was the single largest source of services imports in 2001-02, valued at A\$5.9 billion, and accounting for 19 percent of total services imports¹⁵.

Australia's exports of services are dominated by travel services, were nearly one-half (47 percent) of total services exports in 2001-02. Other services, including communication, insurance and financial services, contributed 28 percent to total services exports for the period. Passenger and other transportation services contributed 21 percent and freight services 3 percent¹⁶.

In 2002, the US exported nearly US\$ 280 billion in services, while importing \$US 205 billion. Of that, Australia supplied US\$ 2.9 billion (roughly 1.4%), while receiving \$US 5.2 billion (1.8% of total US service exports).

¹⁵ Market Information and Analysis Section, Australian Department of Foreign Affairs and Trade 'Trade in Services, Australia' 2001-02', April 2003

¹⁶ Market Information and Analysis Section, Australian Department of Foreign Affairs and Trade 'Trade in Services, Australia' 2001-02', April 2003

In terms of FDI, the US Bureau of Economic Analysis estimates that US-based non-bank affiliates of Australian companies had total assets of nearly US\$70 billion (book value) in 2000 and employed over 83,000 people. This makes Australia the eighth largest provider of FDI in the US.¹⁷ Australian-owned companies are industry leaders in the US in broadcasting, mining, shopping malls, real estate management, construction, building materials and steel manufacturing. The US is the largest investor in Australia, with direct investment of A\$58 billion as of June 2002. The US Bureau of Economic Analysis estimates that Australian affiliates of US firms had total assets in Australia of US\$117 billion in 2000 and employed 324,000 people¹⁸

The US tends to run large trade deficits that are not balanced by modest surpluses in trade in services. Hence, the country is forced to attract large amounts of foreign investment. The ability of the US to sustain this level of capital inflow is the cause of some concern¹⁹.

Despite the US's deficit in the merchandise trade, the US has been running a large trade surplus in intellectual property. US exports in the form of royalties and licensing revenues were valued at US\$23.7 billion in 2002. The surplus (the difference between exports and imports) was US\$15 billion²⁰. As part of its efforts to redress the trade deficit, the Bush administration is beginning to make good on its promises to increase the access of domestic producers to foreign markets, hence the increased activity negotiating FTA's with various partners.

Unlike the EU, however, the US historically eschewed bilateral trade agreements and concentrated on the multilateral GATT/WTO system²¹. The recent shift to negotiating bilateral or regional trade agreements is a major change in focus brought about by the Bush administration. The IMF notes that the US motivations for pursuing more FTA's, other than opening more markets to its exporters, are geopolitical and security driven. With such broad policy goals, most of the US FTA's (with the exception of the NAFTA partners) have been with relatively minor trading partners, who typically represent less than 3% of total US exports²². However, the US is usually an important export market for the partner country. In the case of Jordan, for example, even though trade was not a major motivating goal behind the FTA, exports to the US rose from 1 to 10% of Jordan's exports between 1999 and 2001²³. Australia can hope to copy Jordan's example, but should be aware of larger possible US objectives for the FTA.

In fact, it is argued that for the US, tariff reduction goals are a minor component of its FTA's, compared to pursuing liberalization in services and investment. Intellectual property rights, services rules, environmental standards, labor standards and facilitating incoming FDI as an economic stimulus for the US economy are central features of US FTA's²⁴.

¹⁷ Australia - US Relations, Australian Dept of Foreign Affairs and International Trade

¹⁸ Australia - US Relations, Australian Dept of Foreign Affairs and International Trade

¹⁹ EIU, *Country Commerce*, US, May 2003

²⁰ EIU, *Country Commerce*, US, May 2003

²¹ Yeung, M.T, Kerr, W.A. and Perdakis, N. (2002) *A New Trade Relationship: Canada and the EU – Forestry, Minerals and Metals*, Estey Centre for Law and Economics in International Trade, Saskatoon.

²² IMF Series, Country Report #03/245, 'US: Selected Issues', August 05, 2003

²³ IMF Series, Country Report #03/245, 'US: Selected Issues', August 05, 2003

²⁴ IMF Series, Country Report #03/245, 'US: Selected Issues', August 05, 2003

4.0 The AUSFTA

Australia summarizes its main objectives for the AUSFTA as:

"An FTA with the US presents a unique opportunity to advance the interests of Australia's exporters, and offers significant benefits to the nation in terms of economic growth and employment. The Government will give a high priority to reducing the most significant market access barriers facing Australian exports, particularly in the agricultural sector. The Government will pursue a range of Australian interests in the US market covering all areas of the Australian economy (including) manufacturing, services, investment, government procurement, telecommunications and electronic commerce, intellectual property rights and movement of people."²⁵

The Australian government's motivation for negotiating a trade deal with the US is obvious. According to Australia's ambassador in Washington, Michael Thawley, "Our manufacturers, service providers, and entrepreneurs need to be global players if they are to have the success they want."²⁶ Small Business Minister Joe Hockey said a free trade agreement with the US would not cost jobs but would provide an A\$4 billion (US\$2.68 billion) per year injection into the nation's economy.²⁷

Relative economic scale has greater relevance to Australia in considering the potential benefits of an FTA with the US. The net income gains from liberalization arising from changing prices and production patterns in the affected industries (to reflect comparative advantage) are limited only by the size and diversity of the US economy. Given the dominant economic position of the US, there are not many limits to Australian income gains. The direct impacts will arise in specific industries as a result of the elimination of barriers and the indirect effects will be limited by the magnitude of the first round effects. The US is a major trading partner but still has a smaller weight of 22 percent in Australia's balance of payments, compared with 36 percent for the EU and twenty percent for Japan²⁸.

The gains for the US are less evident. It is predicted that the US can expect relatively small gains in trade of goods but more significant benefits in investment and services.²⁹ For the US, the net gain relative to the whole economy would be real but smaller and therefore less visible nationally. The AUSFTA is obviously a much less significant national economic decision for the US than for Australia. The benefits accruing to the US from AUSFTA will be modest because the influence of Australia on the US economy is relatively small. Of course, this would be true of most US trade partners.³⁰

²⁵ Australia-US Free Trade Agreement, DFAT

²⁶ Stokes, Bruce, *National Journal*, March 10, 2001 v33 i10 p724.

²⁷ *AsiaPulse News*, June 20, 2003 p8002

²⁸ *An Australia-USA Free Trade Agreement: Issues and Implications*, The Australian APEC Study Centre, Monash University, August 2001

²⁹ John Edwards, chief economist for Australia and New Zealand for the HSBC bank in Sydney in Stokes 2001

³⁰ *An Australia-USA Free Trade Agreement: Issues and Implications*, The Australian APEC Study Centre, Monash University, August 2001

5.0 IMPLICATIONS FOR CANADIAN EXPORTS

What are the implications for Canada of the AUSFTA? Both Australia and the US have specific goals to achieve within the FTA, but the final outcomes will not be known for some time. As such, an analysis of each nation's negotiating points as they relate to Canadian trade with both countries is a logical approach.

Canadian firms enjoy the advantages negotiated under NAFTA. Canadian trade with the US is far larger than can be explained by the relative sizes of the two countries' GDP's. Non-NAFTA exporters such as Australia face disadvantages in the US market. Moreover, in the absence of an AUSFTA, or a multilateral trade round delivering equivalent market access gains, virtually all other Western Hemisphere countries would gain a similar advantage over Australian competitors under the proposed Free Trade Area of the Americas (FTAA).³¹

Table 5 reports Canada's most important exports to the US by 4-digit HS Chapter. These can be compared with Australia's major exports at the 4-digit HS level. In other words, Table 5 provides a current snapshot of Australian exports as potential competition to Canadian exports into the US market. With the conclusion of the AUSFTA, it is reasonable to expect that Australia's export profile to the US will change. Canada must at the least be aware of the expected changes.

It is important to note that for Canada, the exports listed in Table 5 comprise over 55% of total Canadian exports to the US market. In the case of Australia, they represent over 65% of Australia's total exports to the US. These export classifications provide a significant sampling of exports for each nation, and will generally represent the products most likely to benefit from liberalization. Of course, there may be some additional products that currently are not major exports because of significant barriers to importation into the US.

³¹ *An Australia–USA Free Trade Agreement: Issues and Implications*, The Australian APEC Study Centre, Monash University, August 2001

Table 5

| A Comparison of Canadian and Australian Exports to the US, 1998 - 2002 | | | |
|---|---|-------------------------------|---|
| Top Canadian Exports | | Top Australian Exports | |
| HS Code | Product | HS Code | Product |
| 8703 | 8703 - MOTOR VEHICLES FOR PASSENGER TRANSPORT (OTHER THAN BUSES/PUBLIC TRANSPORT) | 0202 | 0202 - MEAT OF BOVINE ANIMALS - FROZEN |
| 2711 | 2711 - LIQUEFIED PETROLEUM OR HYDROCARBON GASES | 2709 | 2709 - CRUDE PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS |
| 2709 | 2709 - CRUDE PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS | 2204 | 2204 - GRAPE WINES (NON AROMATIC) AND GRAPE MUST |
| 8708 | 8708 - MOTOR VEHICLE PARTS (EXCL. BODY, CHASSIS AND ENGINES) | 8703 | 8703 - MOTOR VEHICLES FOR PASSENGER TRANSPORT (OTHER THAN BUSES/PUBLIC TRANSPORT) |
| 8704 | 8704 - TRUCKS AND OTHER VEHICLES FOR THE TRANSPORT OF GOODS | 2818 | 2818 - ALUMINUM OXIDES AND HYDROXIDES |
| 4407 | 4407 - LUMBER (THICKNESS >6MM) | 6110 | 6110 - SWEATERS, SWEATSHIRTS AND WAIST-COATS - KNITTED |
| 2710 | 2710 - PREPARATIONS OF/NON-CRUDE PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS | 0204 | 0204 - MEAT OF LAMB, SHEEP AND GOATS - FRESH, CHILLED OR FROZEN |
| 8802 | 8802 - HELICOPTERS, AIRPLANES AND SPACECRAFT | 8708 | 8708 - MOTOR VEHICLE PARTS (EXCL. BODY, CHASSIS AND ENGINES) |
| 4801 | 4801 - NEWSPRINT - IN ROLLS OR SHEETS | 7601 | 7601 - UNWROUGHT ALUMINUM |
| 9403 | 9403 - FURNITURE - OTHER THAN FOR MEDICAL, SURGICAL OR DENTAL USE | 0201 | 0201 - MEAT OF BOVINE ANIMALS -- FRESH OR CHILLED |
| 4802 | 4802 - UNCOATED PAPER AND PAPERBOARD FOR WRITING, PRINTING OR GRAPHIC USES | 3004 | 3004 - MEDICAMENTS - PUT UP IN MEASURED DOSES OR PACKED FOR RETAIL USE |
| 7601 | 7601 - UNWROUGHT ALUMINUM | 2614 | 2614 - TITANIUM ORES AND CONCENTRATES |
| 8407 | 8407 - SPARK-IGNITION RECIPROCATING OR ROTARY INTERNAL COMBUSTION PISTON ENGINES | 8803 | 8803 - PARTS OF HELICOPTERS, AIRPLANES, BALLOONS, DIRIGIBLES AND SPACECRAFT |
| 8411 | 8411 - TURBO-JETS, TURBO-PROPELLERS AND OTHER GAS TURBINES | 9018 | 9018 - INSTRUMENTS AND APPLIANCES USED IN MEDICAL, SURGICAL OR VETERINARY SCIENCES |
| 8517 | 8517 - ELECTRICAL APPARATUS FOR TELEPHONIC LINE USE (INCL. TELEPHONES AND MODEMS) | 2615 | 2615 - ZIRCONIUM NIOBIUM, TANTALUM AND VANADIUM ORES AND CONCENTRATES |
| 4703 | 4703 - CHEMICAL WOOD PULP - SODA OR SULPHATE | 7101 | 7101 - PEARLS |
| 7108 | 7108 - GOLD | 7208 | 7208 - FLAT HOT-ROLLED PRODUCTS OF IRON/NON-ALLOY STEEL (WIDTH >600MM) - NOT CLAD, PLATED OR COATED |
| 3901 | 3901 - POLYMERS OF ETHYLENE IN PRIMARY FORMS | 7502 | 7502 - UNWROUGHT NICKEL |
| 9401 | 9401 - SEATS | 7207 | 7207 - SEMI-FINISHED PRODUCTS OF IRON OR NON-ALLOY STEEL |
| 8473 | 8473 - PARTS AND ACCESSORIES FOR COMPUTERS AND OTHER OFFICE MACHINERY | 9021 | 9021 - ORTHOPEDIC AND OTHER APPLIANCES WHICH ARE WORN OR CARRIED OR IMPLANTED IN THE BODY |
| 4410 | 4410 - PARTICLE BOARD OF WOOD OR OTHER LIGNEOUS MATERIAL | 0306 | 0306 - CRUSTACEANS - LIVE, FRESH, CHILLED, FROZEN, DRIED, SALTED OR IN BRINE |
| 4011 | 4011 - NEW PNEUMATIC TIRES OF RUBBER | 1701 | 1701 - CANE OR BEET SUGAR |
| 8542 | 8542 - ELECTRONIC INTEGRATED CIRCUITS AND MICROASSEMBLIES | 2844 | 2844 - URANIUM AND OTHER RADIOACTIVE ELEMENTS, ISOTOPES, RESIDUES AND COMPOUNDS |
| 4418 | 4418 - WINDOWS, DOORS, SHINGLES AND SHAKES, PANELS AND OTHER BUILDERS JOINERS AND CARPENTRY OF WOOD | 8714 | 8714 - PARTS FOR MOTORCYCLES AND MOPEDS |
| 0102 | 0102 - LIVE BOVINE ANIMALS | 8903 | 8903 - MOTORBOATS, SAILBOATS, CANOES, ROWBOATS, INFLATABLES AND OTHER PLEASURE CRAFT |

Source: derived from Industry Canada, Strategis database

5.1 MANUFACTURES/INDUSTRIAL

A major motivation behind the Australian desire for the AUSFTA is that US restrictions on imports tend to be most severe on Australia's major potential exports to the US: sugar, wool, meat, grain (with import restrictions supporting the subsidy regime), steel and some other less important products. These restrictions are reinforced by the fact that US domestic political pressures are also the most intense in these areas of Australian export interest.³²

Merchandise trade between Australia and the US, particularly in manufactures, is relatively open, with most tariff lines bound. Average tariffs for the US are 2.8 percent, with over one-third of all tariff lines duty free. As with most countries, averages obscure high tariffs and other trade restrictions in a limited number of politically sensitive sectors.³³ Most products traded between Australia and the US move under the WTO's MFN tariffs.

Australia's tariff regime is similarly open with rates varying between 0 and 5 percent for 85 percent of items and an average tariff rate of 3.8 percent. In industrial products, the average applied MFN rate is 4.7%. Australia has two areas with tariff peaks – textiles/clothing/footwear (TCF) and passenger motor vehicles (PMV). These tariff peaks are scheduled to be reduced in 2005³⁴.

Given the relatively low average tariffs, reduction to 0 is likely an achievable goal in many sectors. However, in products with higher tariffs or tariff peaks, negotiations could be more difficult. For instance, in the US, higher tariffs apply to Australian exports of clothing (11.8 percent), leather (7.8 percent) and light trucks (25 percent). Conversely, in Australia, higher tariffs apply to US exports of automobiles (15 percent), textiles (10 percent) and clothing (15 percent).

Both the US and Australia seek to eliminate tariffs and other trade barriers on a comprehensive, broad basis. Specifically, Australia is interested in eliminating tariffs on exports of clothing, textiles and leather including bovine leathers, textile floor coverings, knitted or crocheted fabrics, cotton blouses and shirts, cotton jerseys and pullovers. Another important objective of the Australian government is the removal of legislative barriers to the export of Australian-built fast ferries and other vessels to the US.³⁵

A key goal for the US is the gradual phasing in of tariff reductions over reasonable adjustment periods for import-sensitive products and to achieve fully reciprocal access to Australia's market for US textile and apparel products.³⁶ Given that both countries have objectives for textile and related products, discussions in this industry should be well motivated.

³² 'An Australia-US free trade agreement', Ross Garnaut, *Australian Journal of International Affairs*, Vol. 56, No. 1, pp. 123–141, 2002

³³ Centre for International Economics, *Economic Impacts of an Australia–US Free Trade Area*, prepared for DFAT, June 2001

³⁴ Office of the US Trade Representative, *2003 National Trade Estimate Report on Foreign Trade Barriers*

³⁵ Australian Dept of Foreign Affairs and Trade

³⁶ Australia FTA Senate Notification letter from US Trade Representative, Robert Zoellick

Table 6 lists the aforementioned negotiating priorities for Australia under the AUSFTA by HS Chapter and the competitive exports from Canada. It provides the relative importance of each HS Chapter to each economy as well as applicable tariffs.

Table 6

| Comparison of Canadian and Australian Industrial Exports to the US under focus in the AUSFTA | | | | | | | |
|---|--|------------------|--------------|------------|--------------|--------------------------|--------------|
| Special Focus HS Chapter | Product, Exporting Country and Applicable Tariffs | 2001 | 2002 | | 2002 | 2002 | 2003 |
| | | thousand dollars | | % of total | Rank of HS2* | Jan-Aug thousand dollars | |
| 6110 | Canada - Free but annual quantitative restrictions apply | | | | | | |
| | All categories in HS 61 | \$799,349.90 | \$805,954.30 | 100 | 31 | \$541,204.20 | \$494,570.80 |
| | 6110 - sweaters, pullovers, sweatshirts, waistcoats (vests) and similar articles, knitted or crocheted | \$207,960.60 | \$196,297.10 | 24.4 | | \$118,236.50 | \$101,595.70 |
| | Australia - tariffs range from 1.4 - 32.2 % | | | | | | |
| | All categories in HS 61 | \$209,107.90 | \$232,740.50 | 100 | 10 | \$134,206.60 | \$108,124.90 |
| | 6110 - sweaters, pullovers, sweatshirts, waistcoats (vests) and similar articles, knitted or crocheted | \$192,449.10 | \$219,119.20 | 94.1 | | \$124,732.30 | \$103,041.50 |
| 8901 | Canada - Duty-free but legislative restrictions | | | | | | |
| | All categories in HS 89 | \$460,697.80 | \$492,393.20 | 100 | 45 | \$355,008.00 | \$345,311.20 |
| | 8901 - vessels for the transport of persons or goods, including cruise ships, excursion boats, ferry boats, cargo ships and barges | \$921.20 | \$2,279.20 | 0.5 | | \$2,002.70 | \$1,239.10 |
| | Australia - free but legislative restrictions | | | | | | |
| | All categories in HS 89 | \$50,102.90 | \$36,569.90 | 100 | 28 | \$21,505.70 | \$22,845.50 |
| | 8901 - vessels for the transport of persons or goods, including cruise ships, excursion boats, ferry boats, cargo ships and barges | \$9.90 | \$0.00 | 0 | | \$0.00 | \$380.20 |
| 5700 | Canada - Free | | | | | | |
| | All categories in HS 57 - carpets and other textile floor coverings | \$1,741.00 | \$1,796.00 | 100 | 64 | \$1,205.00 | \$1,187.00 |
| | Australia - tariffs range from 0% - 8.2% | | | | | | |
| | All categories in HS 57 - carpets and other textile floor coverings | \$50.00 | \$59.00 | 100 | 59 | \$36.00 | \$54.00 |

*meaning the ranking of the 2-digit HS Chapter's importance out of the overall HS list of 98 Chapters classifying a country's total exports
Source: derived from US ITC, Dataweb and Industry Canada, Strategis Database

Table 6 continued

| Comparison of Canadian and Australian Industrial Exports to the US under focus in the AUSFTA | | | | | | | |
|--|--|------------------|--------------|------------|--------------|------------------|--------------|
| Special Focus HS Chapter | Product, Exporting Country & Applicable Tariffs | 2001 | 2002 | | 2002 | 2002 | 2003 |
| | | | | | | Jan.-Aug | |
| | | thousand dollars | | % of total | Rank of HS2* | thousand dollars | |
| 4100 | Canada - Free | | | | | | |
| | All Categories in HS 41--raw hides and skins (other than furskins) and leather | \$947.00 | \$794.00 | 100.0 | 77 | \$543.00 | \$413.00 |
| | Australia - Tariffs range from free - 5% | | | | | | |
| | All Categories in HS 41--raw hides and skins (other than furskins) and leather | \$208.00 | \$124.00 | 100.0 | 44 | \$860.00 | \$490.00 |
| 6205 & 6206 | Canada - Free but annual quantitative quotas apply | | | | | | |
| | All Categories in HS 62 | \$773,354.70 | \$782,565.90 | 100 | 32 | \$506,687.70 | \$527,551.50 |
| | 620520.--men's or boys' shirts of cotton, not knitted or crocheted | \$31,512.50 | \$32,034.10 | 4.1 | | \$19,777.70 | \$19,793.60 |
| | 620630.--women's or girls' blouses, shirts and shirt-blouses of cotton, not knitted or crocheted | \$6,263.60 | \$6,823.00 | 0.9 | | \$4,976.80 | \$4,301.20 |
| | Australia - tariffs range from 3.5% - 19.8% | | | | | | |
| | All Categories in HS 62 | \$6,873.70 | \$4,621.70 | 100 | 65 | \$2,793.80 | \$3,265.40 |
| | 620520.--men's or boys' shirts of cotton, not knitted or crocheted | 79.9 | \$110.00 | 2.4 | | \$74.80 | \$36.60 |
| 620630.--women's or girls' blouses, shirts and shirt-blouses of cotton, not knitted or crocheted | \$61.60 | \$83.70 | 1.8 | | \$63.60 | \$92.80 | |
| *meaning the ranking of the 2-digit HS Chapter's importance out of the total list of 98 Chapters classifying a country's total exports | | | | | | | |
| Source: derived from US ITC Dataweb and Industry Canada, Strategis Database | | | | | | | |

5.1.1 Canadian INDUSTRIAL/MANUFACTURES Exports – AUSFTA Implications: Australian competition into the US market

5.1.1.1. Clothing

Articles of apparel and clothing accessories, knitted or crocheted (HS61), are a significant Australian export to the US, ranking 10th in overall export categories. Of this, sweaters, sweatshirts, etc., (HS6110) are the largest component, comprising 94% of this category in 2002. In terms of dollar value, Australia exported over US\$219 million of HS6110 to the US in 2002, not significantly more than Canadian exports of US\$196 million the same year. However, HS 6110 is only 24% of a nearly US\$806 million HS61 category for Canada, which ranks only 31st in importance of Canadian exports to the US.

In other words, in 2002, 94% of the 10th most important Australian export category to the US is valued at approximately the same as 24% of the 31st most important Canadian export category to the US.

As Table 6 illustrates, HS 6110 faces various tariffs, while Canadian products enter the US duty-free. Reducing these tariffs, preferably to zero, is a major Australian objective for the AUSFTA. What are the implications for Canada?

Canada's trade in HS 61 across its subcategories is limited by quantitative annual limits as part of the NAFTA agreement. The structure of a quantitative quota is to limit supply; hence it is reasonable to assume that Canada is currently capable of exporting greater quantities of HS 61 to the US but is limited by these quotas to current levels. It is possible that if successful in obtaining a tariff reduction, Australia would need to concede to a quota in this category.

Should Australia be successful in negotiating tariff reductions or elimination in HS6110 as stated in its objectives, the effect on Canadian exports of HS6110 should be negligible as the Canadian quota was established as part of the NAFTA.³⁷ This quota is not subject to change unless included as part of the FTAA negotiations. Additionally, HS6110 comprises only one-quarter of Canadian exports of HS61 to the US; hence any changes to Australian exports of HS 6110 will have a small impact on Canada's HS61 export category as a whole.

Regarding HS 62, particularly cotton shirts and blouses, a similar comparative profile between Canada and Australia exists. US tariffs to Australian exports in HS6205 and HS6206 range up to 19.8%. Given that both Australia and US negotiators have identified textiles as a key industry for liberalization, reciprocity in tariff reductions will be needed. The Australian tariff for clothing is 25% and access to the US market is dependent upon the Australian industry's willingness to reduce this tariff.

For Canada, the quota established under NAFTA also controls HS 62³⁸ and changes to exports will be negligible despite the AUSFTA negotiations. This quota is not subject to change unless included as part of the FTAA negotiations.

³⁷ Harmonized Tariff Schedule of the US (2003), US International Trade Commission

³⁸ Harmonized Tariff Schedule of the US (2003), US International Trade Commission

The Canadian apparel industry is faced with a changing environment, as Canadian duties on imported clothing will be removed in 2004 as part of Canadian commitments to developing countries. By 2005, many protective barriers for clothing and textiles will be dismantled and reduced³⁹, forcing many of the industry's firms to restructure and develop strategies to ensure their futures in a competitive global environment. Additionally, TCF will become negotiable as part of general WTO liberalization as of 2005, and barriers to global trade including quotas will be included as part of these efforts. The AUSFTA will be a small concern for Canadian apparel manufacturers.

5.1.1.2. Shipbuilding

HS8901 comprises vessels for the transport of persons or goods including ferryboats. Australia's defense and commercial shipbuilding industry exports approximately A\$285 million/year focusing on key products - fast ferries, fishing vessels, super yachts and tugs, and defense craft including submarines. Australia's commercial shipbuilding industry, although small, is an effective competitor in international markets with roughly 80 percent of its output exported.⁴⁰ An export dependent industry, it is continuously seeking potential areas of market growth and diversification.

The US represents one such growth opportunity for Australian shipbuilders, however, legislation generally known as the Jones Act governs the domestic transportation of passengers and cargo by water and poses a significant barrier to Australian exports.

Under the Jones Act, domestic waterborne commerce is reserved for vessels built in the US, owned and crewed by US citizens, and registered under the US flag. The Jones Act continues to be the foundation for America's domestic shipping policy⁴¹. As a result, Australian exports of fast ferries are effectively barred from the US market. Australia seeks to remedy the situation with the AUSFTA.

In terms of competition to Canadian exports of ships, boats and floating structures (HS 89), Australia enjoys competitive advantage in the production of fast ferries (under HS8901). Canada produces various products under the HS 89 category, including ferryboats, cruise ships and excursion boats, however fast ferries are a minor component. As a result, a reduction in barriers to Australian exports of HS8901 will not affect Canadian exports of the category – this category as a whole comprised 3.2% of total shipbuilding exports from Canada in 2002⁴². Canadian firms have specialized capabilities in manufacturing and repairing ships, building offshore oil and gas structures, and supplying shipyard-related services⁴³. Canada and Australia should not be viewed as direct competitors in this industrial subsector.

³⁹ CBC Radio 1, The Sunday Edition, 'Denim Blues', broadcast Nov 9, 2003.

⁴⁰ Govt of Australia, Industry, Tourism and Resources, Shipbuilding Factsheet

⁴¹ US Department of Transportation, Maritime Administration

⁴² Industry Canada, Exports, Shipbuilding and Repair Industry

⁴³ Industry Canada, The Canadian Shipbuilding and Industrial Marine Industry – Innovation Profile, April 2002

Canada does export a small number of commercial vessels to the US – roughly 0.67% of total vessel exports under HS89 - but is as limited by the Jones Act as other nations. The US government allows Canadian exports of HS89 into the US market duty-free under NAFTA.⁴⁴

5.1.1.3. Textiles

In terms of textile floor coverings, Canada's exports of \$US1.7 million in 2002 ranks as its 64th most important export HS Category, with tariff free status into the US market. Conversely, Australian exports of HS 57 during the same year were valued at US\$ 59,000 giving it a ranking as the 59th most important export to Australia's economy.

The Australian carpet industry has been through a period of extensive restructuring and rationalization in recent years but remains the eighth or ninth largest carpet manufacturing industry in the world. Australia boasts one manufacturer that is the largest processor of carpet wool in the world. Australian manufacturers view export markets as an integral growth strategy and many see exporting as the only prospect for the industry's future.⁴⁵ Manufacturers are also moving away from low-value production to providing value-adding services, technology and developing strong brands.⁴⁶

Should Australia be successful in having tariffs reduced in HS 5700, there will be trade diversion from Canadian to Australian sources into the US market as Canada loses its special status, particularly in subcategories with higher tariff levels. The same is true for HS41 – leathers. Australia is facing relatively low tariffs for leather exports to the US, up to 5%. With the AUSFTA, these tariffs will likely be eliminated and the Australian industry is well placed to significantly increase its exports to the US, as a competitor to Canadian suppliers.

For the most part, unless Canadian manufacturers are efficient and that even with the tariff reduction they remain more competitive than Australian counterparts, trade diversion is likely in the TCF industries.

Table 7 provides a summary of Australian industrial exports to the US on an MFN basis that compete with Canadian exports on the HS2 level.

Generally, US tariffs to Australian manufactures exports are low, with the exception of select tariff peaks. With the AUSFTA, many of these tariffs will be eliminated. The implications for Canada of these tariff reductions vary by sector.

5.1.1.4. Energy

In the energy sector (crude petroleum – HS2709), Australia faces a 5-10 cent/bbl duty on crude oil, while Canada's exports enter the US duty free. Crude petroleum is Australia's 2nd largest export to the US, despite the tariff. Liquid petroleum is exported to the US by both countries, with Canada's exports entering the US duty free and facilitated by a network of pipelines throughout North America. Should Australia be successful in negotiating a tariff concession from the US regarding crude petroleum, it is unlikely to affect Canadian crude

⁴⁴ Harmonized Tariff Schedule of the US (2003), US International Trade Commission

⁴⁵ Scenario Planning for the Carpet Industry, The Carpet Institute of Australia, June 1999, Australian Department of Industry, Science and Resources

⁴⁶ Textile, Clothing and Footwear Industry fact sheet, Australian Department of Industry, Science and Resources

exports (currently Canada's third largest export category to the US) given the ever-growing US appetite for fossil fuel energy and the relative size of the Australian industry.

5.1.1.5. Mining & Chemicals

Tariff reductions for Australia's MFN exports, particularly in chemicals (manganese oxides, copper oxides, carboxylic acids, insecticides, herbicides), some minerals (magnesium and magnesium alloys, processed zinc and aluminum) and some steel items, as well as ceramic tiles, certain machinery items and parts, optical fibres and cables, parts and accessories for optical and measuring instruments, will likely affect Canadian exports or market share in the US.

Australia has significant mineral resources that have fostered a large mining industry that is working toward ensuring growth and sustainability in this industry. The industry profile includes what Australia has termed their 'light metals' sub-sector - existing production of aluminum metal; planned production of magnesium metal; and potential production in titanium.⁴⁷

The aluminum industry is Australia's 2nd largest export industry (after coal) with an estimated economic contribution of over A\$8 billion in 2000-01. With its large bauxite reserves, world competitive energy supplies and existing strong market presence, Australia is in an excellent position to further increase its share of this market. Aluminum is one of the few within the Australian resources sector dominated by value-added exports – alumina, ingot, and semi-fabricated products. Nine out of the world's ten leading aluminum companies participate in the Australian industry. In 1999-2000, Australia was the world's largest producer of bauxite and alumina. Of the OECD countries, only Australia (+1 percent) and Canada (+2.7 percent) have achieved increased global aluminum market share in the last decade.⁴⁸

The Canadian primary aluminum industry has a total production capacity of 2.3 million tonnes of metal per year, concentrated in Québec, and with one smelter in British Columbia. Bauxite, a raw material necessary for aluminum production is found mostly in tropical countries while alumina, derived from bauxite, is imported mostly from Australia, South America, the southern US or is produced locally in Jonquière, Québec. Even though most Canadian shipments are intended for the US, the industry's products make their way to a number of Asian and European countries⁴⁹. Low priced hydro-electricity is the source of Canada's advantage in aluminum production.

Despite increasing exports, Canada continues to be a net importer of aluminum rolled, cast and extruded products, although the sectoral trade deficit has decreased since 1990. Demand from the automotive industry is growing in order to produce more fuel-efficient vehicles by increasing the use of lighter weight aluminum in vehicle manufacturing. As market globalization continues, the Canadian semi-fabricating industry will be particularly well placed to benefit from foreign market opportunities as it has already adapted to foreign

⁴⁷ Australian Dept of Industry, Tourism and Resources, '*Australia Leading the Light Metals Age*', Light Metals Action Agenda, Strategic Leaders Group, Report to Government August 2001.

⁴⁸ Australian Dept of Industry, Tourism and Resources, '*Australia Leading the Light Metals Age*', Light Metals Action Agenda, Strategic Leaders Group, Report to Government August 2001

⁴⁹ Industry Canada, '*The Aluminum Industry - Today for the needs of tomorrow*'

competition. The US remained Canada's major trading partner with 97.9% of Canada's aluminum exports directed to the US in 1998. In fact, 56.3% of aluminum semi-fabricated products production was destined to the US⁵⁰

Both Australia and Canada export aluminum to the US, although Canada exported roughly 55 times as much product to the US as Australia did in 2002. The AUSFTA will likely reduce the tariffs paid by Australia from the maximum of 6.5%, making Australian product more competitive. Given that demand for aluminum is rising, growing demand may enable Canada to maintain or expand its export market despite challenges from Australian product. Canada still enjoys inherent advantages in trading with the US – proximity, ease of access, fewer transactions costs and lower transport charges. Nevertheless, Australian aluminum exports will challenge Canada's existing export market share.

Australia has several world-class sources of magnesium ore but no production of magnesium metal at present. Several projects, if completed, will significantly increase magnesium production, including the Australian Magnesium Corporation, which is expected to start producing in late 2004, reaching full capacity in 2006. When this occurs, Australia will challenge Canada's market share as the world's second largest producer of primary magnesium, after China. Generally, the countries where major magnesium markets are developing are those that have existing production (generally at a high cost) and the companies in these countries are active in seeking tariff protection. For example, European and US companies have successfully sought protection against lower cost imports including those from Russia and China, but also from Canada.⁵¹ Given that the AUSFTA will reduce barriers to Australian exports of magnesium to the US, rivaling Canada's duty-free exports, Australia is an up-and-coming challenger to Canadian export market share in this industry.

5.1.1.6. Automotive

Given that a priority of Australia's automotive industry is to export to diversified markets, success in negotiating a reduction of the current 25% tariff on light utility vehicles could potentially affect Canadian exports. The four manufacturers active in Australia are Ford, Holden, Mitsubishi and Toyota, subsidiaries of overseas parents, supported by more than 200 component, tooling, design and engineering firms, of which, many, but not all, are subsidiaries of global corporations. Australia's vision of the industry is as a niche global player, boosting exports by 2005.⁵²

In comparison, the Canadian automotive industry produces light duty vehicles - cars, vans, pickup trucks; heavy duty vehicles - trucks, transit buses, school buses, military vehicles; and a wide range of parts, components, and systems used in vehicles of this nature. The light-duty vehicle sector has 14 high-volume assembly plants producing 2.5 million cars, minivans, and light trucks annually, valued at Cdn\$59 billion with 90% of production exported. Many key high-volume models are sourced in Canada. The vehicle manufacturers have expanded their production and renewed their product mandates, and have updated their process technologies to state-of-the-art as new models are introduced. Canada has an advantage

⁵⁰ Industry Canada, 'Aluminum Semi-Fabricating - in Canada, Industry Snapshot', 2000

⁵¹ Australian Dept of Industry, Tourism and Resources, '*Australia Leading the Light Metals Age* - Light Metals Action Agenda' - Strategic Leaders Group, Report to Government, August 2001

⁵² Australian Dept of Industry, Tourism and Resources, *Automotive Action Agenda*, updated: 11/09/2003

over the US in terms of assembly costs, where Canadian direct labor costs are 23% less per hour and productivity requires 7% fewer labor hours per unit.⁵³ The Canadian and US auto industries are highly integrated in complete vehicles, suppliers, manufacturing, parts and components. Given this state of high integration, the overall size and scope of the industry, and the differences in manufacturers and brands of vehicles, it is likely that the impact of additional Australian exports will be small.

5.1.1.7. Machinery, Telecommunications and Electronic Commerce

In HS84 (nuclear reactors, boilers, machinery and mechanical appliances etc), HS85 (electrical machinery etc) and HS90 (precision, optical instruments etc), Australia will become a competitor to Canadian exports to the US. As the products in these sectors are immensely varied, and comprise large portions of each nation's manufactures' exports, the implications of tariff reductions for Australia will be small but broad; small in the sense that the average tariffs are not high, yet applicable across a broad spectrum of products. The extent that Australia is able to compete with Canadian goods will depend on the product, its industry and the degree to which that industry is integrated across the US and Canadian borders.

In terms of the information and communications technologies (ICT) industries, being relatively new, not many barriers to trade exist, except in the 'hard' goods of machinery and equipment. These are faced with the usual assortment of relatively low average tariffs and some technical barriers to trade (TBT's).

In Canada, the ICT industry includes products such as: computer equipment, wired & wireless communications equipment, audio and visual equipment, electronic components, instruments, wires and cables, and related machinery. ICT Services include: software and computer services, telecommunications services (wired and wireless), cable and other program distribution, ICT wholesaling, and ICT rental and leasing.

Approximately three-quarters of ICT products manufactured in Canada are exported. Communications equipment represented the largest proportion (30.7%) of all exports of ICT goods in 2002, and consistent with overall trade patterns, the US is the main market for exports of ICT goods, accounting for 79.2% of all exports of ICT goods in 2002. Shipments to both the EU and the Asia Pacific region represented 8.6% of total exports for each of these two regions.⁵⁴ ICT products accounted for 83% of ICT exports and 93% of ICT imports in 2001. ICT exports represent 7.3% of total Canadian exports in 2001 while ICT imports accounted for 13.6% of total Canadian imports⁵⁵.

The Canadian ICT industry is a globally competitive one, with high levels of integration amongst US counterparts as indicated by the high levels of trade across the Canada-US border. Both the US and Canada export significant quantities of HS8517 (electrical apparatus for telephone line use, including modems and telephones) to Australia. As illustrated in Table

⁵³ Industry Canada, *Canada's Automotive Industry 2002*

⁵⁴ Industry Canada, 'Canada's Information & Communications Technologies Trade Performance, 1995 – 2001' and 'Canadian ICT Sector Profile, October 2003'

⁵⁵ Industry Canada, 'Canada's Information & Communications Technologies Trade Performance, 1995 – 2001' and 'Canadian ICT Sector Profile, October 2003'

7, Canadian exports enter the US duty-free. Australian products under HS85 face tariffs that range from 0 – 6.7%, with most below 3%.

The impact of the AUSFTA will be that highly competitive Australian products will now have duty-free access to the US market.

Of particular relevance for these HS Chapters, beyond tariffs are non-tariff barriers in such areas as standards certification and technical regulation (general tools of TBT). These affect a great many of Australia's potential exports under the AUSFTA. Opportunities for harmonization or mutual recognition of mandatory and/or voluntary technical standards are being pursued.⁵⁶ Depending on the success of the negotiations, access for HS85, HS88 and HS90 will be affected. In the aircraft and precious metals/stones industries, it is unlikely that the AUSFTA will affect Canadian exports to the US. Aircraft from both Canada and Australia already enter duty free. In precious metals and stones, Canada exports gold and silver while Australia exports pearls.

Given the wide variety and broad scope of the manufacturing industry in Canada, factors affecting their vulnerability to effects of the AUSFTA include:

- 1) Should the product in question be exported into a mature US market, with previously high protection prior to the AUSFTA, there may be less competition from Australia. A mature market may not offer sufficient growth incentive for Australian firms to consider any major production/processing expansion or facilities relocation to the US.
- 2) In the highly competitive manufacturing industry, the removal of even low US duties (around 5-6%) can be enough to make Australian products competitive to Canadian ones, but larger freight and shipping costs should be included.

⁵⁶ Australian Dept of Foreign Affairs and International Trade

Table 7

| Comparison of Canadian and Australian Industrial Exports to the US with Australia having MFN status | | | | | | | |
|--|---|-----------------------|-------------------------------|-------------------------|-----------------------|-------------|-------------|
| MFN HS2 Chapter | Product and Exporting Country | 2001 | 2002 | | 2002 | 2002 | 2003 |
| | | millions of \$ | % of total exports | Rank of HS2* | Jan.-Aug | | |
| | | | | | millions of \$ | | |
| 27 | Canada - Free | | | | | | |
| | All categories in HS 27 - mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes | 34224.60 | 29577.90 | 14.05 | 2 | 18151.60 | 28276.80 |
| | Australia - Free except in specific sectors of HS2707, 2709, 2710 | | | | | | |
| | All categories in HS 27 - mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes | 367.00 | 495.00 | 7.75 | 3 | 239.10 | 213.80 |
| 28 | Canada - Free | | | | | | |
| | All categories in HS28 - inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes | 1300.20 | 1257.50 | 0.59 | 23 | 850.00 | 847.70 |
| | Australia - Tariff range from 0% - 6.7% | | | | | | |
| | All categories in HS28 - inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes | 388.70 | 348.20 | 5.44 | 6 | 235.20 | 223.90 |
| 71 | Canada - Free | | | | | | |
| | All Categories in HS 71 - natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin | 1915.40 | 2248.90 | 1.07 | 16 | 1576.30 | 1262.40 |
| of which | 7108 Gold is 71% | 1263.29 | 1597.08 | 0.76 | | 1157.65 | 869.54 |
| | 7106 Silver is 10% | 234.11 | 239.94 | 0.11 | | 168.49 | 146.32 |
| | Australia - Tariffs for HS71 range from free to 4.1% | | | | | | |
| | All Categories in HS 71 - natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin | 98.10 | 107.50 | 1.68 | 16 | 68.90 | 62.60 |
| of which | 7101 Pearls are 67%, | 63.67 | 72.33 | 1.12 | | 45.31 | 30.38 |
| | 7103 semi-precious & precious stones, except diamonds are 12% | 11.59 | 12.84 | 0.20 | | 9.48 | 8.78 |

Table 7 continued

| Comparison of Canadian and Australian Industrial Exports to the US with Australia having MFN status | | | | | | | |
|---|---|----------------|-----------------------|-----------------|----------------|----------|----------|
| MFN HS2 Chapter | Product and Exporting Country | 2001 | 2002 | | 2002 | 2002 | 2003 |
| | | millions of \$ | % of total exports | Rank of HS2* | Jan.-Aug | | |
| | | | | | millions of \$ | | |
| 72 | Canada - Free | | | | | | |
| | All Categories in HS 72 - iron and steel | 1873.90 | 2406.90 | 1.14 | 14 | 1602.50 | 1610.00 |
| | Australia - Tariffs range from free to 10% with the majority at 0.5% | | | | | | |
| | All Categories in HS 72 - iron and steel | 162.20 | 167.80 | 2.62 | 12 | 100.80 | 119.20 |
| 76 | Canada - Free | | | | | | |
| | All Categories in HS 76 - aluminum and articles thereof | 4563.20 | 4445.70 | 2.11 | 11 | 2998.80 | 3185.40 |
| | Australia - Tariffs range from free to 6.5% | | | | | | |
| | All Categories in HS 76 - aluminum and articles thereof | 194.00 | 146.30 | 2.29 | 13 | 108.70 | 56.50 |
| 84 | Canada - Free | | | | | | |
| | All categories of HS84 - nuclear reactors, boilers, machinery and mechanical appliances; parts thereof | 17247.50 | 16208.40 | 7.70 | 3 | 10880.90 | 10434.60 |
| of which | 8411.--turbojets, turbopropellers and other gas turbines, and parts thereof are 14% | 2451.43 | 2267.57 | 1.07 | | 1509.14 | 1091.49 |
| | 8407.--spark-ignition reciprocating or rotary internal combustion piston engines are 13.59% | 2162.52 | 2203.93 | 1.04 | | 1467.82 | 1483.45 |
| | Australia - Tariffs range from free to 6.7% with the majority of rates below 2% | | | | | | |
| | All categories of HS84 - nuclear reactors, boilers, machinery and mechanical appliances; parts thereof | 307.20 | 295.80 | 4.62 | 8 | 206.80 | 220.20 |
| of which | 8471.--automatic data processing machines and units thereof; magnetic or optical readers, machines for transcribing and processing coded data, nesoi are 9.6% | 20.41 | 28.26 | 0.44 | | 18.86 | 14.79 |
| | 8422.--machines, for dishwashing, for cleaning, drying, filling, closing etc. containers, for other packing etc., and for aerating beverages; parts thereof are 7.3% | 14.79 | 21.69 | 0.34 | | 15.93 | 11.83 |
| | 8409.--parts for spark-ignition reciprocating or rotary internal combustion piston engines and compression-ignition internal combustion piston engines are 5.6% | 7.55 | 16.67 | 0.26 | | 13.57 | 15.51 |

Table 7 continued

| Comparison of Canadian and Australian Industrial Exports to the US with Australia having MFN status | | | | | | | |
|---|--|----------------|-----------------------|-----------------|----------------|---------|---------|
| MFN HS2 Chapter | Product and Exporting Country | 2001 | 2002 | | 2002 | 2002 | 2003 |
| | | millions of \$ | % of total exports | Rank of HS2* | Jan.-Aug | | |
| | | | | | millions of \$ | | |
| 85 | Canada - Free | | | | | | |
| | All Categories in HS 85.--electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories | 11061.60 | 9045.80 | 4.30 | 7 | 6013.10 | 5311.70 |
| of which | 8517.--electrical apparatus for line telephony or line telegraphy, including such apparatus for carrier-current or digital line systems; parts thereof are 20% | 2610.32 | 1880.72 | 0.89 | | 1348.53 | 971.00 |
| | 8542.--electronic integrated circuits and microassemblies; parts thereof are 11.3% | 1706.55 | 1023.30 | 0.49 | | 682.98 | 629.18 |
| | 8525.--transmission apparatus for radiotelephony, radiotelegraphy, radiobroadcasting or tv; tv cameras; still image video cameras and recorders are 9.9% | 1108.55 | 902.41 | 0.43 | | 542.59 | 561.16 |
| | 8504.--electrical transformers, static converters or inductors; power supplies for adp machines or units; parts thereof are 5.9% | 595.42 | 535.05 | 0.25 | | 371.61 | 302.19 |
| | Australia - tariffs range from free to 6.7%, with most being at 3% or under | | | | | | |
| | All Categories in HS 85.--electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories | 193.10 | 170.30 | 2.66 | 11 | 115.80 | 127.10 |
| of which | 8524.--records, tapes and other recorded media for sound or other similarly recorded phenomena, including matrices and masters for the production of records are 12.7% | 17.46 | 21.64 | 0.34 | | 13.73 | 15.64 |
| | 8501.--electric motors and generators (excluding generating sets) are 10% | 17.92 | 17.16 | 0.27 | | 12.26 | 9.94 |
| | 8517.--electrical apparatus for line telephony or line telegraphy, including such apparatus for carrier-current or digital line systems; parts thereof are 9.4% | 23.47 | 16.10 | 0.25 | | 7.99 | 18.80 |
| | 8529.--parts for television, radio and radar apparatus are 8.5% | 12.02 | 14.51 | 0.23 | | 10.15 | 5.94 |

Table 7 continued

| Comparison of Canadian and Australian Industrial Exports to the US with Australia having MFN status | | | | | | | |
|---|--|----------------|----------|-----------------------|-----------------|----------------|----------|
| MFN HS2 Chapter | Product and Exporting Country | 2001 | 2002 | | 2002 | 2002 | 2003 |
| | | millions of \$ | | % of total exports | Rank of HS2* | Jan.-Aug | |
| | | | | | | millions of \$ | |
| 87 | Canada - Free | | | | | | |
| | All Categories in HS 87 - vehicles, other than railway or tramway rolling stock, and parts and accessories thereof | 50703.30 | 52382.10 | 24.88 | 1 | 35175.40 | 34019.80 |
| of which | 8703.--motor cars and other motor vehicles designed to transport people (other than public-transport type), including station wagons and racing cars is 59% | 31826.49 | 31263.49 | 14.85 | | 21196.65 | 19774.14 |
| | 8708.--parts and accessories for tractors, public-transport passenger vehicles, motor cars, goods transport motor vehicles and special purpose motor vehicles is 18% | 8634.61 | 9720.29 | 4.48 | | 6506.25 | 6807.86 |
| | 8704.--motor vehicles for the transport of goods is 17% | 8743.37 | 9070.25 | 4.23 | | 5981.53 | 5828.13 |
| | Australia - tariffs range from free to 25%, with the majority being below 10% | | | | | | |
| | All Categories in HS 87 - vehicles, other than railway or tramway rolling stock, and parts and accessories thereof | 434.20 | 507.00 | 7.92 | 2 | 311.30 | 218.00 |
| of which | 8703.--motor cars and other motor vehicles designed to transport people (other than public-transport type), including station wagons and racing cars is 61% | 278.65 | 311.20 | 4.83 | | 190.56 | 77.16 |
| | 8708.--parts and accessories for tractors, public-transport passenger vehicles, motor cars, goods transport motor vehicles and special purpose motor vehicles is 29% | 123.66 | 150.81 | 2.30 | | 93.19 | 104.13 |
| | 8714.--parts and accessories for motorcycles, bicycles and other cycles, including parts and accessories for delivery tricycles and invalid carriages is 7% | 28.16 | 36.57 | 0.55 | | 22.94 | 28.84 |
| 88 | Canada - Free | | | | | | |
| | All Categories in HS 88 - aircraft, spacecraft, and parts thereof | 6094.30 | 5268.30 | 2.50 | 9 | 3468.20 | 4293.80 |
| of which | 8802.--aircraft, powered (for example, helicopters, airplanes); spacecraft (including satellites) and spacecraft launch vehicles are 78% | 4527.85 | 4145.69 | 1.95 | | 2655.79 | 3698.69 |
| | 8803.--parts of balloons, dirigibles, gliders, airplanes, other aircraft, spacecraft and spacecraft launch vehicles are 17% | 1307.17 | 937.25 | 0.43 | | 678.08 | 515.30 |
| | Australia - Free except for a 3% tariff on parachutes | | | | | | |
| | All Categories in HS 88 - aircraft, spacecraft, and parts thereof | 131.60 | 111.30 | 1.74 | 15 | 77.10 | 71.00 |
| of which | 8803.--parts of balloons, dirigibles, gliders, airplanes, other aircraft, spacecraft and spacecraft launch vehicles are 95% | 129.44 | 105.94 | 1.65 | | 72.42 | 68.38 |
| | 8802.--aircraft, powered (for example, helicopters, airplanes); spacecraft (including satellites) and spacecraft launch vehicles are 4.2% | 1.57 | 4.75 | 0.07 | | 4.22 | 1.86 |

Table 7 continued

| Comparison of Canadian and Australian Industrial Exports to the US with Australia having MFN status | | | | | | | |
|--|--|----------------|-----------------------|-----------------|----------------|---------|---------|
| MFN HS2 Chapter | Product and Exporting Country | 2001 | 2002 | | 2002 | 2002 | 2003 |
| | | millions of \$ | % of total exports | Rank of HS2* | Jan.-Aug | | |
| | | | | | millions of \$ | | |
| 90 | Canada - Free | | | | | | |
| | All Categories in HS 90 - optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof | 2166.90 | 1867.90 | 0.89 | 18 | 1222.70 | 1129.40 |
| of which | 9032.--automatic regulating or controlling instruments and apparatus; parts and accessories thereof are 14.67% | 307.85 | 274.04 | 0.13 | | 195.48 | 143.99 |
| | 9018.--instruments and appliances used in medical, surgical, dental or veterinary sciences (including electro-medical and sight-testing); parts etc. thereof are 12.33% | 155.82 | 230.35 | 0.11 | | 142.75 | 181.13 |
| | 9027.--instruments and apparatus for physical or chemical analysis, including checking viscosity, expansion, heat, sound, light etc.; microtomes; parts etc are 11.46% | 210.79 | 213.98 | 0.10 | | 137.78 | 144.03 |
| | 9031.--measuring or checking instruments, appliances and machines, nesoi; profile projectors; parts and accessories thereof are 10.95% | 237.95 | 204.53 | 0.10 | | 137.10 | 125.65 |
| | Australia - Tariffs range from free to 14.9% | | | | | | |
| | All Categories in HS 90 - optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof | 337.90 | 306.90 | 4.80 | 7 | 204.90 | 182.80 |
| of which | 9018.--instruments and appliances used in medical, surgical, dental or veterinary sciences (including electro-medical and sight-testing); parts etc. thereof are 30.1% | 48.58 | 92.65 | 1.45 | | 61.16 | 68.67 |
| | 9021.--orthopedic appliances; splints etc.; artificial parts of the body; hearing aids and other appliances to compensate for a defect etc.; parts etc. are 21.46 | 40.81 | 65.86 | 1.03 | | 44.57 | 36.09 |
| | 9030.--oscilloscopes, spectrum analyzers etc. for measuring etc. electrical quantities, nesoi; devices for measuring etc. ionizing radiations; parts etc. are 10.19% | 49.91 | 31.29 | 0.49 | | 21.00 | 10.50 |
| *meaning the ranking of the 2-digit HS Chapter's importance out of the total list of 98 Chapters classifying a country's total exports | | | | | | | |
| Source: derived from US ITC Dataweb and Industry Canada, Strategis Database | | | | | | | |

5.1.2. Canadian INDUSTRIAL/MANUFACTURES exports - AUSFTA Implications: US Competition into the Australian Market

With the negotiation of the AUSFTA, the US will enjoy a reduction and/or elimination in tariffs and barriers that will give US exports some advantage over Canada in specific sectors. It is not clear, however, how the issue of tariff circumvention will be dealt with. Given that Canadian products have duty free access to the US, there is the possibility of transshipment of Canadian products through the US to avoid tariffs on direct Canadian exports of products to Australia. The issue of transshipment and tariff circumvention is usually dealt with through complicated rules of origin provisions but there are no details yet available regarding such provisions in the AUSFTA.

Table 8 provides a comparison between Canadian and US exports to Australia, and shows the likely areas where US exports could compete with Canadian exports. The major products listed represent over 70% and 56% of total exports to Australia for each of Canada and the US respectively.

The US industrial/manufactures goals for the AUSFTA include:

- Quarantine standards, along with motor vehicle tariffs and Australian local content quotas for television, are issues of importance for the US⁵⁷.
- Eliminate tariffs and other barriers to trade on the broadest possible basis, subject to reasonable adjustment periods for import-sensitive products.
- Fully reciprocal access to Australia's market for US textile and apparel products.

⁵⁷ 'Free Trade between Australia and the US Could Take Decades', AsiaPulse News, March 12, 2003 p0250

Table 8

| A Comparison of Canadian and American Exports to Australia, 1998 - 2002 | | | | | | | | | |
|--|-----------------|-----------------------------|---|----------------|--|----------------|-----------------|--|--|
| | | Top Canadian Exports | | | Top United States Exports | | | | |
| US Duty | Cdn duty | HS Code | Product | HS Code | Product | US Duty | Cdn Duty | | |
| 0 - 15% | 0 - 7.5% | 8407 | 8407 - SPARK-IGNITION ENGINES | 8802 | 8802 - HELICOPTERS, AIRPLANES AND SPACECRAFT | free | free | | |
| free | free | 8710 | 8710 - TANKS etc | 8803 | 8803 - PARTS OF HELICOPTERS, AIRPLANES,ETC | free | free | | |
| 0 - 5% | 0 - 4% | 4407 | 4407 - LUMBER (THICKNESS >6MM) | 8471 | 8471 - COMPUTERS AND COMPUTER PERIPHERALS | free | free | | |
| free | free | 0203 | 0203 - MEAT OF SWINE | 8708 | 8708 - MOTOR VEHICLE PARTS | 0 - 15% | 0 - 7.5% | | |
| free | free | 3104 | 3104 - MINERAL OR CHEMICAL FERTILIZERS | 9018 | 9018 - INSTRUMENTS -MEDICAL, SURGICAL, VETERINARY | free | free | | |
| free | free | 8517 | 8517 - ELECTRICALS FOR TELEPHONIC USE | 8703 | 8703 - PMV | 5 - 17.5% | 0 - 10% | | |
| free | free | 8802 | 8802 - HELICOPTERS, AIRPLANES &SPACECRAFT | 8431 | 8431 - PARTS FOR MACHINERY (HS 8425-8430) | 5% | 5% ^ | | |
| free | free | 2601 | 2601 - IRON ORES AND CONCENTRATES | 3004 | 3004 - RETAILMEDICAMENTS | free | free | | |
| free | free | 8411 | 8411 - TURBO-JETS, AND GAS TURBINES | 8473 | 8473 - COMPUTER PARTS AND ACCESSORIES | free | free | | |
| free | free | 4703 | 4703 - CHEMICAL WOODPULP | 8411 | 8411 - TURBO-JETS, AND GAS TURBINES | free | free | | |
| 0 - 15% | 0 - 7.5% | 8708 | 8708 - MOTOR VEHICLE PARTS | 8517 | 8517 - ELECTRICAL APPARATUS -TELEPHONE USE | free | free | | |
| 5% | 0 - 5% | 4802 | 4802 - UNCOATED PAPER & PAPERBOARD | 3100 | 3100 - FERTILIZERS | free | free | | |
| 0-5%* | 0-5%* | 8477 | 8477 - MACHINERY - RUBBER OR PLASTIC | 8701 | 8701 - TRACTORS | 0 - 5% | free | | |
| 5% | 5% ^ | 8431 | 8431 - PARTS FOR MACHINERY | 8433 | 8433 - HARVESTING/AGRICULTURAL MACHINERY | 5% | 5% ^ | | |
| free | free | 8473 | 8473 - COMPUTERS parts and accessories | 8409 | 8409 - PARTS FOR ENGINES | 0 - 5%* | 0 - 5%* | | |
| 0 - 5% | 5% ^ | 8433 | 8433 - HARVESTING/AGRI-MACHINERY | 2713 | 2713 - PETROLEUM COKE & RESIDUES | free | free | | |
| 5% | free | 8704 | 8704 - TRUCKS FOR THE TRANSPORT OF GOODS | 8704 | 8704 - TRUCKS FOR THE TRANSPORT OF GOODS | 5% | free | | |
| free | free | 8432 | 8432 - MACHINERY- AGRICULTURAL SOIL PREPARATION | 9021 | 9021 - ORTHOPAEDIC & APPLIANCES FOR THE BODY | 0 -15%* | 0 - 15%* | | |
| free | free | 1604 | 1604 - FISH, CAVIAR AND CAVIAR SUBSTITUTES | 8421 | 8421 - CENTRIFUGES; FILTERING OR PURIFYING MACHINERY | 0 -15%* | 0 - 15%* | | |
| free | free | 8471 | 8471 - COMPUTERS AND PERIPHERALS | 8429 | 8429 - BULLDOZERS, SHOVEL LOADERS, ETC | 0 -5%* | 0 - 5%* | | |
| 0 -5%* | 0 -5%* | 8543 | 8543 - OTHER ELECTRICAL MACHINES | 4901 | 4901 - PRINTED PAPERS | 0 -5%* | 0 - 5%* | | |
| free | free | 8803 | 8803 - HELICOPTERS, AIRPLANES PARTS | 8525 | 8525 - TV/RADIO BROADCASTING EQUIPMENT | 0 - 5% | free | | |
| 0 - 5%* | 0 - 5%* | 5402 | 5402 - SYNTHETIC FILAMENT YARN | 8408 | 8408 - DIESEL OR SEMI-DIESEL ENGINES | 0 - 15% | 0 - 7.5% | | |
| 0 - 5% | free | 8525 | 8525 - TRANSMISSION PARTS FOR TV/RADIO BROADCASTING | 8407 | 8407 - INTERNAL COMBUSTION PISTOL ENGINES | 0 - 15% | 0 - 7.5% | | |
| 5% | free | 8436 | 8436 - OTHER AGRICULTURAL.MACHINERY | 9027 | 9027 - INSTRUMENTS FOR PHYSICAL/CHEMICAL ANALYSIS | free | free | | |

* denotes exactly the same duties on the exact same products
^denotes exactly the same duties on the exact same products with the exception of 1 category where Canada enjoys CP
Source: derived from Industry Canada, Strategis Database and APEC Tariff database

Both Canadian and US exports to Australia are heavily oriented towards manufactures. Canada's most important exports to Australia include engines, non-bovine meat, telecommunications equipment, simply worked wood and agricultural equipment⁵⁸. Important US exports to Australia include aircraft and parts, telecommunications equipment, measuring and controlling instruments, internal combustion piston engines and computers⁵⁹.

Australia is coincidentally the thirteenth largest export market for both US and Canadian goods, albeit the scale and value of Australia as a market contrasts markedly between the two countries. In 2002, Australia took only 0.3% of Canada's total exports, valued at just over Cdn\$1 billion, while for the US, Australia represented 1.89% of the total export market, valued at over US\$13.2 billion.⁶⁰

Australia has been reducing its tariffs gradually since the 1970s - currently 86 percent of tariffs stand between zero and five percent. The average applied MFN rate for industrial products is 4.7 percent, with bound rates ranging from zero to 55 percent. The average applied MFN tariff for agricultural products is about 1.2 percent, with bound rates ranging from zero to 29 percent. Tariff rate quotas are in place on five cheese items and for non-manufactured tobacco. Australia retains two domestic tariff peaks, which apply to TCF and PMV sectors. Applied tariffs for both of these sectors are legislated to be further reduced in 2005⁶¹.

An additional concern for Canada is that its Commonwealth Preferences⁶² (CP) with Australia will be eroded. As discussed above, CANATA was established in 1960 and amended in 1973, but has limited coverage⁶³. Historical significance aside, the importance of CP has already been eroded by WTO MFN principles. CP provided lower tariffs for Commonwealth nations prior to the GATT, however, with successive GATT/WTO Rounds, the value of these privileges has been declining to the point where in most industries, they are irrelevant⁶⁴.

Tariffs range between 0 – 5% between the Canada and Australia with CP and MFN. Approximately the same average tariff levels exist between the US and Australia, due to GATT/WTO MFN obligations. Canada and the US currently share similar tariff regimes with Australia, though via different mechanisms. Hence in the case of Australia, the relevance of CP is moot as MFN has been just as effective in reducing tariffs.

⁵⁸ Australia-Canada Relations, Australian Dept of Foreign Affairs and Trade

⁵⁹ Australia-US Relations, Australian Dept of Foreign Affairs and Trade

⁶⁰ Strategis Database, Industry Canada

⁶¹ US Office of the Trade Representative, *Foreign Trade Barriers Report, Australia, 2003*

⁶² In 1932 Britain abandoned free trade and imposed tariffs or quotas on most imports from foreign countries, while continuing to grant duty-free status to empire produce. Empire countries, including Canada, reciprocated by raising tariffs on non-British manufactures. The Ottawa Agreements of 1932 codified the system of Imperial Preference. With the negotiations to form the GATT in the late 1940's, the UK agreed to the principle of no new preferences that precluded the extension of the Ottawa system while Britain and other Commonwealth countries were members of GATT (Institute of Commonwealth Studies, University of London 'Canada and the End of Empire Conference', April 2001).

⁶³ Australia-Canada Relations, Australian Dept of Foreign Affairs and Trade

⁶⁴ In the conference report – '*The Commonwealth After Edinburgh: New Directions, New Priorities?*' Cumberland Lodge, 21-22 January 1998 participants indicated the system of Commonwealth preferences had ended long ago, and that trade liberalization was best pursued through the WTO.

5.1.2.1 Textiles

Textiles are an important industry for Canada, valued at Cdn\$6.8 billion in 2001, of which some 49.9% (Cdn\$3.4 billion) was exported. The industry accounted for 1.3% of manufacturing Gross Domestic Product (GDP), but in 2001 was continuing to lose market share to offshore suppliers. However, exports increased their share of total shipments to 49.9%, 10% higher than in 2000, and 37.8% higher than in 1996. The main destination for Canadian textiles exports is the US, representing over 90% of Canadian shipments in 2002.⁶⁵

In contrast, Australia is a very small market for Canadian textile exports. The three significant categories of Canadian textiles export to Australia are: HS 54 (Man-Made Filaments, Filament Yarns and Fabrics), HS 55 (Man-Made Staple Fibers, Staple Fiber Yarns and Fabrics), and HS 63 (Other Made-Up Textile Articles and Worn Clothing) totaling roughly Cdn\$12.5 million. Canada has a specialized footwear industry that focuses on cold weather wear, and there is obviously little demand for cold weather products in Australia.

The US textiles industry is far larger than Canada's and its exports to Australia dwarf Canadian exports. For the three main categories that Canada exports, HS 54 ranks as the US 42nd most important overall export HS code, valued at US\$20 million in 2002. HS63 was 50th in overall export importance, valued at US\$12.9 million and HS55 is 57th, valued at US\$9.1 million.

Given the current US share in Australia's TCF market, economic projections based on formal modeling exercises indicate that the removal of barriers affecting trade in these goods would lead to increases in US exports to Australia of between US\$100 million and US\$500 million.⁶⁶ In other words, on the macroeconomic scale, increased US shipments of textile products to Australia due to the reduction of trade barriers under AUSFTA are not significant to Canadian trade activity as the Australian market for Canadian textiles exports is so small. However, for the Canadian textile industry, and particularly firms that are currently exporting (approximately Cdn\$12 million) to Australia, the AUSFTA will have significant impact. Ideally, any concessions gained by the US into the Australian textile market will be phased-in, allowing Canadian firms time to adjust their marketing strategies.

5.1.2.2. Passenger Motor Vehicles

The US is very interested in opening the Australian PMV market to US exports. The removal of barriers to trade in PMV and components is estimated by US industry to result in an increase in US exports of between US\$100 million and US\$500 million.⁶⁷ A major barrier however, remains, as Australians drive on the opposite side of the road as in the US. As with Japan, the unwillingness of US manufacturers to engineer their products to accommodate both left and right hand drive will inhibit market acceptance of their products.

The implications of the AUSFTA for Canada could potentially be beneficial as the Canadian automotive industry is heavily integrated with its US counterpart. Canada's largest exports to the US are in HS8704 - trucks for the transport of goods, and HS 8708 – motor vehicle parts, excluding body, chassis and engines, with 41.66% and 45.71% shares (2002) of total Canadian auto exports respectively. Should US exports of PMV significantly increase; Canadian

⁶⁵ Strategis Database, Industry Canada.

⁶⁶ US Office of the Trade Representative, *Foreign Trade Barriers Report, Australia, 2003*

⁶⁷ US Office of the Trade Representative, *Foreign Trade Barriers Report, Australia, 2003*

component suppliers will see an increase in demand for parts. Similarly, as Canadian facilities manufacture a large number of trucks and SUV's for the US market, these too could expect to increase shipments to the US in order to meet additional demand. Again, however, Canadian subsidiaries of US manufacturers are not engineered to accommodate both right and left hand drive.

In terms of direct automotive exports, Australia is an insignificant destination for Canadian firms. The average market importance of Australia in the various automotive related HS chapters is less than 0.2% of total Canadian automotive exports in 2002⁶⁸. Thus, the US gaining greater market access for automotives would have little direct impact. Canada's indirect gains are likely to have much more value.

5.1.2.3. Pharmaceuticals

Research-based US pharmaceutical firms believe they are disadvantaged by several Australian government policies. These include a reference pricing system tying the price of an innovative US medicine to the lowest priced medicine in the same therapeutic or chemical group, regardless of patent status of the medicines. The lack of transparency of the government's pharmaceutical listing and reimbursement decision-making process, including the absence of an appeals process, is also likely to inhibit market development by US exporters⁶⁹.

At this point in time, the US is requesting more information about Australia's Pharmaceutical Benefit Scheme (PBS) in order to determine transparency. Current negotiations are focusing on the process of determining the value of innovative medicines, the transparency of that process, and the values that are awarded to innovative medicines.

US negotiators have stated that the US is not seeking fundamental changes in the way pharmaceuticals are provided to Australians, as the US Pharmaceutical Association endorses the current approach of the PBS⁷⁰. Australian officials have promised that the outcomes of the FTA would not alter its capacity to deliver fundamental policy objectives in health care. US officials have also stated that the AUSFTA would in no way effect the basic framework of the PBS and the way medicines were delivered to Australians⁷¹.

The Canadian pharmaceutical industry includes: brand-name drug manufacturers, generic drug manufacturers, firms developing biopharmaceutical products, non-prescription drug manufacturers, and firms undertaking research on a contract basis. Canada currently ships 15% and 0.17% of its pharmaceutical exports to the US and Australia respectively. Of shipments to the US in 2002, the majority (64%) are comprised of HS 3004 – Medicaments, in measured doses or packed for retail use. Should any of these products be ingredients in US pharmaceutical products or are product to be re-exported, the AUSFTA could benefit to Canadian pharmaceutical exports. However, given the popularity of Canadian Internet pharmacies supplying US end-use drug purchasers, it is likely that a small proportion of

⁶⁸ Strategis database, Industry Canada

⁶⁹ US Office of the Trade Representative, *Foreign Trade Barriers Report, Australia, 2003*

⁷⁰ Media briefing, Canberra, 4th Round, Free Trade Agreement negotiations between Australia and the US.

Conducted by Australia's chief negotiator Stephen Deady and the US' chief negotiator Ralph Ives, Oct 27, 2003

⁷¹ AsiaPulse News, 'FTA would not alter medicine delivery to Australians: Minister', June 3, 2003 p4749.

Canadian product is intended for ingredient-use or re-export. Canadian exports to Australia are minor and as such will not be affected significantly by the AUSFTA.

The stated US goal of information gathering regarding PBS will, however, assist Canadians in an indirect way, in that some understanding of the PBS, its structure, components and benefits, can be garnered for future reference.

5.1.2.4. Information and Communications Technologies

Both Canada and the US export ICT products to Australia. For Canada, ICT represents 4% of total goods exported Australia, while for the US, ICT products accounted for roughly 10% of total exports.

For Australia, the ICT sector is one of the fastest growing in the economy with a sustained growth rate approaching 12% over the last five years. It accounts for some A\$50 billion in sales with annual exports close to A\$4 billion.⁷² Australia's ICT sector is characterized by a strong local industry with many international ICT corporations having significant global operations based in Australia.

The US ICT industry is highly competitive. The AUSFTA will give US products access to the growing Australian market duty-free or with reduced transactions costs (via harmonizing regulations or forming mutual recognition agreements (MRA's)). Canadian products will face MFN duties and status quo in regulatory issues, increasing transactions costs for exporters. As a result, the US ICT industry could potentially take market share away from Canada in the Australian ICT industry, with implications for services and investment, as will be discussed in following sections.

⁷² Commonwealth Scientific and Industrial Research Organization, ICT information

5.2 AGRI-FOOD

Both the US and Australia have identified issues in agriculture as being significant components of the AUSFTA.

Australia's goals

- Removal of tariff rate quota restrictions on exports of beef (frozen, fresh and chilled), dairy products (cheese, butter, skim milk powder, butter oil), sugar (raw and refined), peanuts and cotton – all of which are politically sensitive industries in the US.
- Elimination or reduction of US agricultural subsidies as well as agreement for the US not to subsidize exports of agricultural products to Australia. The former is probably not realistic on a bilateral basis and can only be accomplished in a multilateral forum such as the WTO.
- Work together in the WTO negotiations towards substantial improvements in market access globally, eliminating all export subsidies on agricultural products, and substantial reduction in domestic support for agriculture.
- Removal of tariffs on wool, a range of fruit, vegetables and nuts, certain cut flowers, wheat gluten, rice, vegetable oils, wine, margarine, chocolate and cocoa preparations, canned and preserved fruits, ice cream and other processed food and beverages - average tariffs for sector exceed 10%.

US goals

- Seek elimination of Australian government export monopoly arrangements for wheat, barley, sugar and rice. In particular, by requiring Australia to eliminate exclusive export rights for its state-trading enterprises (STEs), end any special financing privileges for these enterprises, provide more information on the activities of and special rights or privileges they accord to STEs and to require STEs to provide information on their operations.
- Seek to eliminate Australian government practices that adversely affect US exports of perishable or cyclical agricultural products, while improving US import relief mechanisms as appropriate, for instance, maintain the use of safeguards.
- Coordinate with Australia so as to support the US objective in the WTO negotiations of eliminating all export subsidies on agricultural products, while maintaining the right to provide bona fide food aid and preserving US agricultural market development and export credit programs.

For the US, AUSFTA issues relate to Australia's state export boards, sanitary and phyto-sanitary (SPS) regulations, barriers to trade in specific goods, and GM labeling. For Australia, issues of focus include tariff rate quotas on dairy products (cheese, butter, skim milk powder, butter oil), sugar (raw and refined), beef (frozen, fresh and chilled), cotton and peanuts, tariffs on wool, a range of fruit, vegetables and nuts, certain cut flowers, wheat gluten, rice, vegetable oils, processed food and beverages such as wine, margarine, chocolate and cocoa preparations, canned and preserved fruits, ice cream. Australia is also very concerned with US domestic agricultural subsidies as well as high levels of domestic support.

The US focus appears to emphasize overall Australian agricultural policies while Australia's is directed more towards facilitating greater export of agricultural products. As competitive exports to Canadian agri-food exports, not all of Australia's agri-food goals for the AUSFTA

are relevant. For instance, Canada is not a major producer or exporter of peanuts, edible nuts, fresh vegetables and fruit, wool, fresh cut flowers, chocolate and cocoa.

5.2.1. Canadian AGRI-FOOD Exports - AUSFTA Implications: **Australian Competition into the US Market**

In several agri-food sectors, it may appear that Canada and Australia compete, but at closer examination, their areas of competitive advantage differ. For instance, for specific types of cheeses (Swiss, cheddar, blue, etc.), Australia's quota limits are already greater than Canada's⁷³ and Canada does not produce many of the cheese varieties that Australia wants to export. Should Australia negotiate a change in their quota and/or licensing requirements, it is unlikely to affect the Canadian quota in these products.

Similarly, in the wine industry, it appears that Canada and Australia will compete. Although the Canadian wine industry is growing in exports, with the US being a major market, climatic conditions in Canada are not conducive to large-scale wine production and the domestic market is the most important market for Canadian wines. The Canadian wine industry is emerging as a small, internationally recognized cool-climate player, particularly in ice wines.⁷⁴ Australia, with competitive advantages in climate, and scales of production, is a leading producer of wine, exporting a record A\$2.1 billion in June 2002.⁷⁵ Canada is a specialized niche player in this industry, while Australia has a completely different mass-market offering spanning a wide range of quality.

In the sugar industry, Canada is one of five major export destinations for Australian raw cane sugar. Both countries face export restrictions to the highly protected US sugar market. In 1997, the US provided Canada with guaranteed access for 10,300 tonnes of refined sugar and 59,250 tonnes of sugar-containing products. Canada could also compete for a share of the remaining portion of the global quota (about 7,500 tonnes of refined sugar). Otherwise, Canadian sugar refiners have no access to the US market.⁷⁶

Australia is a major producer of raw cane sugar, exporting roughly 78% of production to refineries in Malaysia, Canada, Korea and Japan.⁷⁷ Australia's goal to achieve greater sugar exports to the US will likely be to attain a greater share of the remaining portion of the US's global sugar quota of roughly 7500 tonnes. This is the one area where Canada and Australia will compete in the US sugar market as Canada is also allowed to compete for a portion of this global quota in addition to its guaranteed quota discussed above.

Agri-food products where Canada faces competition from Australian exports include beef, condensed milk, butter oil, skim milk powder, and ice cream. Clearly, the largest most visible potential competitive influence from Australian agri-food is in the beef industry. The Canadian beef industry is still trying to recover its export markets from the single case of BSE

⁷³ Harmonized Tariff Schedule of the US (2003), US International Trade Commission

⁷⁴ AAFC, The Canadian Wine Industry, Sub-Sector Profile, March 2003

⁷⁵ Wine Overview, Austrade

⁷⁶ AAFC, The Canadian Cane and Beet Sugar Industry Sub-Sector Profile

⁷⁷ The Sugar Industry, Australian Dept of Agriculture, Fisheries and Forestry

discovered in early 2003. Table 9 illustrates the devastating effects of the US ban on the Canadian beef industry and shows the industry's reliance on the US as its major market.

Table 9

| Canadian Beef Exports to the United States, Sept 2002 - August 2003 | | | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| (thousands of Cdn \$) | | | | | | | | | | | | |
| | 2002 Sep | 2002 Oct | 2002 Nov | 2002 Dec | 2003 Jan | 2003 Feb | 2003 Mar | 2003 Apr | 2003 May | 2003 June | 2003 Jul | 2003 Aug |
| HS 0102 - LIVE BOVINE ANIMALS | | | | | | | | | | | | |
| United States (U.S.) | 183,338 | 186,732 | 186,713 | 128,838 | 135,836 | 122,872 | 139,826 | 136,731 | 55,807 | 1,705 | -- | -- |
| HS 0201 - MEAT OF BOVINE ANIMALS - FRESH OR CHILLED | | | | | | | | | | | | |
| United States (U.S.) | 129,302 | 137,809 | 136,790 | 127,213 | 149,687 | 133,659 | 143,594 | 137,767 | 85,863 | -- | 176 | -- |
| HS 0202 - MEAT OF BOVINE ANIMALS FROZEN | | | | | | | | | | | | |
| United States (U.S.) | 5,339 | 5,314 | 5,197 | 4,059 | 3,777 | 4,426 | 4,618 | 3,636 | 2,783 | -- | 150 | -- |
| Beef Exports to US, SUB-TOTAL | 317,979 | 329,856 | 328,700 | 260,110 | 289,299 | 260,956 | 288,038 | 278,135 | 144,453 | 1,705 | 325 | -- |
| OTHERS | 26,732 | 26,241 | 25,594 | 24,814 | 32,601 | 32,673 | 30,495 | 25,544 | 15,542 | 482 | 373 | 518 |
| TOTAL (ALL COUNTRIES) | 344,711 | 356,097 | 354,294 | 284,924 | 321,900 | 293,629 | 318,533 | 303,679 | 159,995 | 2,188 | 698 | 518 |
| Source of data: Statistics Canada Report Date: 18-Oct-2003 | | | | | | | | | | | | |

The US ban on Canadian beef exports means that should domestic US production of beef not meet demand, other suppliers of beef could achieve greater access to the US market, should existing quotas be lifted. Despite its TRQ, Australia's largest export to the US from 1998 onwards has been beef, albeit frozen. Fresh or chilled beef exports are the 10th most important export for Australia. In other words, Australia had a strong presence in the US beef market prior to the ban on Canadian beef and clearly, the Australians are well placed to substitute their product for Canadian supplies should they be able to negotiate the elimination of their quota in the AUSFTA.

Currently, neither Canada nor Mexico is faced with quantitative barriers to beef exports. However, Australia is allowed to export a maximum of 378,214 metric tons to the US, under the US export certification program⁷⁸. Effective August 1, 2002, imports of beef from Australia must have an export certificate in order to qualify for the in-quota tariff rate, and the certificate must be used in the calendar year it is issued. (Under a TRQ, the US applies one tariff rate, known as the "in-quota tariff rate," to imports of a product up to a particular amount, known as the "in-quota quantity," and a different, higher tariff rate, known as the "over-quota tariff rate," to imports of the product in excess of that amount.)⁷⁹ The US imports primarily manufacturing-grade beef from Australia to be used in the production of hamburger patties⁸⁰.

The TRQ for frozen beef carcasses rises from 4.4¢/kg in-quota to 13.2¢/kg out-quota while other cuts of Australian beef are charged a 4% duty for in-quota, and out-quota quantities are charged a 20% duty.⁸¹

Canada is the world's tenth largest beef producer and fourth largest beef exporter, behind Australia, the US and Brazil. The US is Canada's main export market for beef - 382 000 tonnes exported in 2002 - accounting for 83 percent of Canada's total beef exports. The majority of Canadian exports are of high quality chilled beef (88 percent of total export volume in 2002), a product it is well suited to supply into the US due to grain availability and proximity; Canada is the largest exporter of this type of product to the US. Canada's exports to countries other than the US, such as Mexico, are primarily in the form of frozen product⁸².

Prior to the beef ban in the wake of the discovery of BSE, Canada had a large trade in live cattle (prime cattle for immediate slaughter, feeder cattle and some for breeding cattle)

⁷⁸ The US maintains a tariff-rate quota on imports of beef as part of its implementation of the Marrakesh Agreement Establishing the World Trade Organization. The in-quota quantity of that tariff-rate quota is allocated in part among a number of countries. As part of the administration of that tariff-rate quota, USTR provided, in 15 CFR part 2012, for the use of export certificates with respect to imports of beef from countries that have an allocation of the in-quota quantity. The export certificates apply only to those countries that USTR determines are participating countries for purposes of 15 CFR part 2012. ('Implementation of Tariff-Rate Quota for Imports of Beef From Australia', Office of the US Trade Representative)

⁷⁹ Office of the US Trade Representative, 15 CFR Part 2012, Implementation of Tariff-Rate Quota for Imports of Beef

⁸⁰ Subsidies Enforcement Annual Report to Congress, Joint Report of the Office of the US Trade Representative and the US Department of Commerce, February, 2001, Attachment C, 'Government Aid Programs Potentially Benefiting the Cattle and Beef Industries in Selected Countries'

⁸¹ US International Trade Commission, Harmonized Tariff Schedule of the US, 2003

⁸² D McDonald, A Davidson & T Gleeson, 'BSE in Canada: market implications', Australian Bureau of Agricultural and Resource Economics

primarily with the US. As with beef, there is two-way trade between Canada and the US, reflecting the close integration of the industries, with many US processors operating plants in Canada. After a 6-month stoppage in all cattle shipments, only cattle under 30 months of age are now allowed to be exported to the US.

In a study by the Australian Bureau of Agriculture and Resource Economics (ABARE), the impacts of the US ban on Canadian beef and its implications for Australian exports were modeled. The assumptions for the model that the US would suspend all beef and live cattle exports from Canada, through 2003, with trade resuming in the following year, closely reflect the current reality of the situation. The results indicate that US beef imports fall by 49% in the first year, reflecting the loss of their largest supplier. Some previously exported US product is consumed domestically to make up for the supply shortfall from Canada and US beef production remains largely unchanged. In Australia, the suspension of Canadian trade is estimated to result in higher demand for Australian beef in other markets in the Pacific Basin previously supplied by Canada — such as the US, Japan, the Republic of Korea, Chinese Taipei and the south east Asian region — and Australian beef exports rise by almost 2 percent.⁸³

This study assumes no change in Australia's TRQ that applies to its exports to the US. Given that Australia is major beef producer and exporter, with an established record in the US market, eliminating the TRQ is likely under AUSFTA negotiations. Australia can significantly increase its exports. The longer the ban on Canadian beef, the more market share Canada will lose on a permanent basis. Once US customers have switched suppliers, it will take determined efforts in pricing and aggressive marketing to win them back again.

As yet, it does not seem economically viable for Australians to export live cattle but chilled and frozen cuts and carcasses are easily exported. Australian "grass fed" beef does not compete directly with Canadian "grain fed" beef in the US market. Grass fed beef is considered a lower quality product that is suitable for hamburger or for the lower priced segments of the hotel, restaurant and institutional (HRI) market. Thus, Canadian exports will be protected from direct Australian competition on the basis of quality. In recent years, however, there has been considerable investment in an Australian grain fed beef industry. If the Australian grain fed industry becomes fully competitive with the Canadian grain fed industry then there could be significant effects on the Canadian industry. This could be an area where the erosion of the special status conferred by the NAFTA could be very important for an industry in Canada.

Table 10 illustrates Australia's exports of beef to the US. The month of May 2003 is in bold to indicate the discovery of BSE in one Canadian cow. The only significant increase in Australian beef exports to the US since May 2003 appears to be in bone-in cuts of chilled beef and veal as well as bone-in frozen cuts of beef.

⁸³ D McDonald, A Davidson & T Gleeson, '*BSE in Canada: market implications*', Australian Bureau of Agricultural and Resource Economics

TABLE 10. AUSTRALIA'S BEEF EXPORTS TO THE UNITED STATES, TONNES OF SHIPPED WIEGHT, 2000 – 2003 YEAR TO DATE

| | | Beef & Veal | | | | Beef (Ex Bull) | | | Bull | V e a l | | | Total | Total |
|----------------------|------------|---------------|-----------|------------|------------|----------------|----------|--------------|-------------|-------------|-----------|------------|--------------|--------------|
| | | C h i l l e d | | | | F r o z e n | | | Frozen | F r o z e n | | | Frozen | Beef & |
| Port | Month | CS | B-In | B-Out | Total | CS | B-In | B-Out | B-Out | CS | In | Out | | |
| USA EC | Oct 2003 | 0 | 317 | 2396 | 2712 | 0 | 22 | 21390 | 1250 | 0 | 22 | 225 | 22908 | 25620 |
| USA WC | Oct | 0 | 1 | 762 | 764 | 0 | 1 | 7085 | 2538 | 0 | 16 | 285 | 9926 | 10690 |
| USA EC | Sept | 0 | 201 | 2334 | 2534 | 0 | 26 | 20376 | 1355 | 0 | 22 | 54 | 21833 | 24368 |
| USA WC | Sept | 0 | 8 | 548 | 556 | 0 | 0 | 7065 | 1695 | 0 | 0 | 554 | 9314 | 9870 |
| USA EC | Aug | 0 | 79 | 1386 | 1465 | 0 | 86 | 18948 | 1271 | 0 | 0 | 105 | 20410 | 21875 |
| USA WC | Aug | 0 | 4 | 583 | 587 | 0 | 0 | 6288 | 1199 | 0 | 1 | 164 | 7653 | 8240 |
| USA EC | July | 0 | 30 | 1250 | 1280 | 0 | 57 | 23752 | 1875 | 0 | 0 | 108 | 25792 | 27072 |
| USA WC | July | 0 | 7 | 610 | 617 | 0 | 0 | 4277 | 774 | 0 | 1 | 98 | 5150 | 5767 |
| USA EC | June | 0 | 58 | 1285 | 1343 | 0 | 0 | 19261 | 1810 | 0 | 0 | 108 | 21179 | 22523 |
| USA WC | June | 0 | 7 | 666 | 673 | 0 | 0 | 4467 | 728 | 0 | 3 | 148 | 5346 | 6019 |
| USA EC | May | 0 | 39 | 926 | 964 | 0 | 0 | 22049 | 1483 | 0 | 0 | 112 | 23644 | 24609 |
| USA WC | May | 0 | 3 | 697 | 701 | 0 | 0 | 5178 | 1254 | 0 | 10 | 140 | 6583 | 7284 |
| USA EC | April | 0 | 86 | 931 | 1016 | 0 | 0 | 20533 | 1774 | 0 | 0 | 88 | 22394 | 23411 |
| USA WC | April | 0 | 1 | 557 | 557 | 0 | 0 | 4806 | 853 | 1 | 13 | 54 | 5728 | 6286 |
| USA EC | March | 0 | 65 | 1096 | 1161 | 0 | 0 | 16628 | 1616 | 0 | 1 | 71 | 18316 | 19477 |
| USA WC | March | 0 | 6 | 1066 | 1072 | 0 | 0 | 4169 | 1091 | 0 | 3 | 54 | 5317 | 6390 |
| USA EC | Feb | 0 | 34 | 979 | 1013 | 0 | 0 | 17886 | 1677 | 0 | 11 | 36 | 19588 | 20600 |
| USA WC | Feb | 0 | 3 | 894 | 897 | 0 | 0 | 4226 | 1002 | 0 | 2 | 40 | 5271 | 6168 |
| January N/A | | | | | | | | | | | | | | |
| USA EC | Dec 2002 | 0 | 51 | 938 | 989 | 0 | 36 | 23059 | 2289 | 0 | 6 | 298 | 25688 | 26677 |
| USA WC | | 0 | 5 | 597 | 602 | 0 | 0 | 3281 | 750 | 0 | 2 | 84 | 4117 | 4719 |
| USA EC | Nov | 0 | 95 | 655 | 750 | 0 | 0 | 22144 | 2379 | 0 | 18 | 226 | 24766 | 25516 |
| USA WC | | 0 | 9 | 642 | 650 | 0 | 0 | 3983 | 899 | 0 | 6 | 226 | 5114 | 5764 |
| USA EC | Oct | 0 | 50 | 1192 | 1242 | 0 | 0 | 25423 | 2214 | 0 | 34 | 366 | 28038 | 29280 |
| USA WC | | 0 | 19 | 940 | 959 | 0 | 0 | 6551 | 1398 | 0 | 15 | 391 | 8355 | 9314 |
| Yearly totals | | | | | | | | | | | | | | |
| USA EC | 2003 YTD | 0 | 924 | 13148 | 14072 | 0 | 191 | 193156 | 15631 | 0 | 48 | 1015 | 210041 | 224114 |
| USA WC | | 0 | 48 | 6920 | 6968 | 0 | 1 | 50102 | 11591 | 1 | 51 | 1561 | 63307 | 70275 |
| USA EC | 2002 | 0 | 550 | 10523 | 11073 | 0 | 58 | 265841 | 21412 | 0 | 113 | 1963 | 289387 | 300460 |
| USA WC | | 0 | 219 | 8718 | 8937 | 0 | 1 | 61522 | 11075 | 0 | 71 | 1695 | 74364 | 83301 |
| USA EC | 2001 | 0 | 58 | 9171 | 9229 | 0 | 45 | 260682 | 22603 | 0 | 200 | 1516 | 285046 | 294274 |
| USA WC | | 0 | 139 | 8536 | 8675 | 0 | 11 | 74202 | 15824 | 0 | 346 | 2002 | 92384 | 101059 |
| USA EC | 2000 | 0 | 21 | 3413 | 3434 | 0 | 70 | 237617 | 18079 | 0 | 40 | 2632 | 258438 | 261872 |
| USA WC | | 0 | 123 | 3170 | 3293 | 0 | 0 | 68016 | 15567 | 0 | 284 | 1360 | 85281 | 88574 |

Note: USA EC denotes East Coast shipments, USA WC denotes West Coast shipments, both exclude Hawaii, CS = carcass B-In = bone-in cut B-out = boneless cuts

Canadian exports of canned, pickled and dried fruits and vegetables are another area where Australia could challenge Canadian market share. Canada exports roughly Cdn\$600 million of these products to the US, approximately 90% of total exports for the sector. However, this industry has a domestic orientation with exports representing only 14.5% of shipments of own manufacture in 1999.⁸⁴ Canada is a small-scale producer with shorter production runs that are easily adaptable to demand. Canadian firms are paying greater attention on niche markets in the US, EU and Japan for quality fruit and vegetable products tailored to demand.⁸⁵

While Canadian firms in the processed food industry are actively pursuing and expect to grow through exports, particularly to the US market, Australia has been under performing in exports for this industry. Australian exports of processed food items have not been growing as rapidly as unprocessed food. Larger firms, many foreign-owned, are less committed to exporting at the higher end of the value chain than the industry as a whole as they see few opportunities for profitable investment in exporting highly processed food from Australia⁸⁶. Australian firms acknowledge weaknesses in their capabilities to initiate and sustain exporting.⁸⁷ In contrast, many US agri-food firms as well as industry associations are looking forward to the AUSFTA as a means to lower prices on imported ingredients, allowing them to become more efficient and profitable.⁸⁸

With the impetus of the AUSFTA, some of the barriers facing Australian exporters in the industry will be reduced. Tariffs, at least, will be reduced or eliminated. Non-tariff barriers, export subsidies and production subsidies will also be discussed. Hence, the door will open for Australian exporters should they choose to pursue this opportunity. For Canadian exporters, until the Australians gain the expertise and experience in exporting for this sector, competitive challenges will not be immediate but should be closely monitored.

It is unlikely that full liberalization of agricultural trade will be achieved in the AUSFTA but substantial additional access for Australian agricultural products can be secured. Some concessions from the US are inevitable, after having agreed to negotiate an FTA. It is reasonable to expect improvements in Australian access for the US meat market. The Australian meat industry favors an FTA, realizing that should the TRQ be removed, the additional export value to Australia would be several hundred million Australian dollars⁸⁹.

Another area in which the AUSFTA could affect Canadian exports to the US is in processed food items where Australian products face an average US tariff of 10% as well as production

⁸⁴ The Canadian Fruit and Vegetable Canning, Pickling and Drying Industry – Agriculture and Agri-food Canada

⁸⁵ The Canadian Fruit and Vegetable Canning, Pickling and Drying Industry – Agriculture and Agri-food Canada

⁸⁶ ‘Exporting Australian Processed Foods – Are We Competitive?’ Australian Dept of Agriculture, Fisheries and Forestry, 2000

⁸⁷ ‘Exporting Australian Processed Foods – Are We Competitive?’ Australian Dept of Agriculture, Fisheries and Forestry, 2000

⁸⁸ Field, Alan, ‘Music to their ears: importers and exporters are singing the praises of a rapidly unfolding US-Australia free-trade agreement. (Special report: Australia trade and transportation).’ *The Journal of Commerce*, July 7, 2003 v4 i27 p24 (5)

⁸⁹ Free Trade Agreements in the era of globalization—new instruments to advance new interests—the case of Australia. Alan Oxley, *Australian Journal of International Affairs*, Vol. 57, No. 1, pp. 165–186, 2003

and export subsidies. Food processing is Australia's largest manufacturing industry. It is also seen to have considerable potential for increased growth, mainly through exports. Australia produces a wide range of processed food in a fragmented and diverse industry. Historically, meat processing was the largest contributor to both turnover (21 percent) and employment (30 percent, but the fastest growing categories in recent years have been flour milling and fruit and vegetable processing⁹⁰.

Clearly, this will be an area of focus for the Australian negotiators and results could potentially affect Canadian exports of processed foods to the US.

In Canada, food and beverage processing is the third largest manufacturing sector. Approximately 40% of agricultural production is exported in raw form, and 12 percent is either sold directly to consumers or sold for non-food uses. 45 percent is marketed as processed food through the food and beverage processing sector, which supplies more than 80 percent of the food consumed in Canada.

The two largest sub-sectors, meat and dairy products, account for about one-third of the total value of shipments. Import penetration and export orientation vary widely among the sub-sectors. For example, export orientation ranges from less than 10% in the supply-managed sub-sectors, canned and preserved fruits and vegetables, sugar, snack food, soft drink and brewery sub-sectors, to more than 60 percent in the distillery products sub-sector⁹¹.

About 73 percent of Canada's processed food exports are destined for the US. Given the strong presence of US-based MNEs in Canada, increased cross-border communications, and great similarities in tastes and lifestyles, the US is generally considered to be an extension of the domestic market. While Mexico will offer many opportunities, the US will remain Canada's primary focus for export expansion in the foreseeable future⁹².

Given the profiles of each country's respective processed food industry, there are some Australian sub-sectors that could potentially challenge Canadian market position in the US.

For instance, Australian ice cream faces an average tariff of 20% and quotas apply to product sourced from New Zealand. Canada exported roughly Cdn\$11 million in ice cream to the US in 2002. Australia does not currently export ice cream to the US. Despite New Zealand's quota allowance, in 2002 and 2003, no ice cream was exported to the US⁹³. As the Antipodes share close economic ties, it is likely that ice cream sourced from New Zealand may be exported to the US via Australia once the AUSFTA is in place. This is a potential challenge to Canadian exports of ice cream, although non-tariff barriers to Australian and New Zealand ice cream will also need to be addressed.

The Australian dairy industry, a strong supporter of an FTA, can reasonably expect some new access to a US dairy market that is virtually closed. Even a small amount of access would

⁹⁰ 'Exporting Australian Processed Foods – Are We Competitive?' Australian Dept of Agriculture, Fisheries and Forestry, 2000

⁹¹ The Canadian Food and Beverage Processing Sector - Adapting to a Global Market

⁹² The Canadian Food and Beverage Processing Sector - Adapting to a Global Market

⁹³ US Trade Balance, USITC, Dataweb

mean significant exports for Australian dairy exporters. It should also be noted that in the NAFTA, Mexico was able to negotiate valuable commitments for increased access over the long term (i.e. 10 or 15 years). This would also be a sensible strategy for Australia's sugar industry to pursue,⁹⁴ although trade experts believe it unlikely that the US would make any more than a token increase in the sugar quota.⁹⁵ Australia could succeed in having quotas and tariff rate quotas adjusted in the dairy and beef industries.⁹⁶

Finally, achieving free trade between Australia and the US is likely to be a slow and gradual process with the phase-in of tariff reductions and dismantling of barriers for sensitive products. In fact, liberalization of the most difficult issues and sectors may be postponed, or be phased in very slowly. To expect that everything would be resolved over the short run is unrealistic.⁹⁷ Previous trade agreements make common use of phase-in for the removal of tariffs and other trade barriers, particularly for sensitive sectors.

With the use of phase-ins, Canadian exporters to the US will have time to adjust to gradually increasing competition from Australian exports and, as with affected industries in the US, should have sufficient notice to develop competitive strategies.

5.2.2. Canadian AGRI-FOOD exports - AUSFTA Implications **US Competition into the Australian Market**

Australia consistently ranks among the world's 15 or 20 largest export markets for US consumer foods and beverages. For snacks, processed fruits and vegetables, and pet food, Australia is among the most important markets for the US. Bulk commodities generally account for less than 10 percent of total US agricultural exports to this market, as Australia is itself a leading agricultural producer and exporter. Soybean meal and other value-added intermediate products play a larger role in US sales, but consumer foods typically top the list⁹⁸. Australian food imports are generally sourced to increase the variety of available products, increase seasonal supplies, or to force price competitiveness.

5.2.2.1. Sanitary and Phyto-Sanitary Regulations

The Australian Government maintains stringent SPS measures, resulting in restrictions on and prohibitions of many agricultural products. The quarantine and inspection process involves the application of an import risk analysis (IRA) to potential agricultural imports, which determines the associated risk of introducing pests and diseases into Australia, as well as how that risk can be managed⁹⁹.

Products affected by Australia's SPS regime include Florida citrus, stone fruit, chicken (fresh, cooked and frozen), pork, apples, pears and corn. The US Government continues to underscore the need for Australia to conduct timely, science-based IRAs and to comply with

⁹⁴ 'Free Trade Agreements in the era of globalization—new instruments to advance new interests—the case of Australia'. Alan Oxley, *Australian Journal of International Affairs*, Vol. 57, No. 1, pp. 165–186, 2003

⁹⁵ 'Free Trade between Australia and the US Could Take Decades', *AsiaPulse News*, March 12, 2003 p0250

⁹⁶ 'Free Trade between Australia and the US Could Take Decades', *AsiaPulse News*, March 12, 2003 p0250

⁹⁷ 'Free Trade between Australia and the US Could Take Decades', *AsiaPulse News*, March 12, 2003 p0250

⁹⁸ USDA, FAS. *AgExporter*, 'Finding familiarity--and sales--in the Australian market', Washington Dec 2002

⁹⁹ US Office of the Trade Representative, *Foreign Trade Barriers Report, Australia, 2003*

its obligations under the WTO Agreement on SPS Measures. The US and Australian Governments have held extensive and detailed consultations on these issues throughout the past year, and these discussions have generated progress on specific issues¹⁰⁰, though neither side is willing to elaborate.

Canadian agri-food exporters face a 5% tariff on most products entering Australia and are equally subject to the same SPS requirements as US products. Exporters of highly processed product will not face the same restrictions, but may require an import permit.

In 2001, Canada exported Cdn\$79.8 million of food products to Australia, representing an increase of 22% over the previous year. The most significant food export to Australia is frozen pork, which was valued at Cdn\$61.3 million or 68 percent of agricultural exports. Canada is focusing on exporting mainly boneless leg meat to Australia, despite seemingly marginal returns. When US pig prices improve as predicted by analysts¹⁰¹, there should be less attraction for Canadian exporters to ship pork to Australia for the low prices currently being received. Although imports are currently limited to cooked, bone-out, raw material for supply to the small goods manufacturing sector, low-cost foreign pork has become a critical element of the future business strategies of several major Australian industry players¹⁰².

As Canada's fourth largest export to Australia in 2002, should the US be successful in having the ban on US pork products¹⁰³ lifted under AUSFTA, Canadian exporters will be faced with a significant and immediate challenge to their market share.

Discussions with US pork exporters affected by the Australian IRA process indicate that removal of Australia's SPS restrictions would increase US exports by a figure in the US\$100 million to US\$500 million range.¹⁰⁴ New proposed quarantine conditions outlined in the IRA for pork would likely permit access into the Australian market for certain US pork products. US officials and the industry are currently studying the Draft IRA to ascertain potential issues and the market access that would be afforded to US pork and pork products.¹⁰⁵ Hence, even prior to the implementation of the AUSFTA, Canadian pork exporters will be facing competitive challenges from the US in the Australian market.

Although Australia's own pork industry is a small developing one, an increasing amount is exported to East Asian markets, particularly Singapore and Japan, therefore opening opportunities for Canadians to supply the domestic market with low-cost cuts while higher end cuts of Australian pork are exported.

¹⁰⁰ US Office of the Trade Representative, *Foreign Trade Barriers Report, Australia, 2003*

¹⁰¹ Due to a decline in the pig slaughter numbers, Australia Pork Limited

¹⁰² Australian Pork Industry Overview 2003

¹⁰³ Australia has strictly controlled import conditions that require various treatments (e.g. fumigation, time/temperature controls, etc.) that must be supported by import permits and attestations on export certificates from authorities in the country of origin. Australia requires attestations from authorities in the country of origin particularly with regard to poultry meat, pork, beef, egg and egg products, fruits and vegetables, dairy products, salmon (fresh) and oysters. All of these products are either not permitted, or are permitted under strict supervision. Generally, if a food is processed to an extent that would eliminate the hazard that is of quarantine concern to Australia, there is no restriction (USDA, FAS, *GAIN Report*, 'Australia – Food and Agricultural Import Regulations and Standards, Country Report', 9/17/2003)

¹⁰⁴ US Office of the Trade Representative, *Foreign Trade Barriers Report, Australia, 2003*

¹⁰⁵ USDA, FAS, *GAIN Report #AS3025*, 'Australia - Livestock and Products, Draft Quarantine Changes for Pork Imports 2003', 8/15/2003

Should the US be successful in negotiating concessions from Australia in its SPS regime, US firms will be faced with several opportunities to increase exports. First, for products that are currently banned, market access may be achieved, creating a new market where none was accessible previously, such as the case for pork products. Currently, the Australian government's explanation for the ban on US pork exports is that the US pork industry suffers from several swine related diseases not present in Australia, most notably, Aujeszky's disease (pseudo-rabies).¹⁰⁶ Both Canada and Australia are Aujeszky's disease-free, although the disease applies to live animals only, which does not explain why US exports of pork meat are banned. Australian officials say US pork could carry several diseases that may infect Australian swine, a charge US producers dispute¹⁰⁷. The US pork industry is interested in accessing the Australian market, but it appears that the US pork industry has viewed the Australian market as low-volume, and not large enough to justify the degree of lobbying required to open the market pre-AUSFTA. Canada on the other hand considered the Australian market large enough to make large sustained efforts to enable Canadian pork exports several years ago¹⁰⁸.

A second opportunity could arise from the AUSFTA if tariffs are reduced for particular US agri-food products but SPS barriers remain. In this scenario, Canada will be faced with the same SPS regulations as well as the existing tariff, and greater US exports could potentially reduce Canadian market share.

Canada's other exports are of maple syrup, coffee extract and whiskey. Canned salmon is also a growing export into a more open market as Australia lifted a ban on the importation of chilled and frozen salmon.¹⁰⁹ Essentially, other than pork exports, Canada does not have significant agri-food exports to Australia, thus the aggregate trade diverting effects of the AUSFTA in the agri-food industry will be slight. However, each specific agri-food sector that currently is exporting to Australia will face significant competitive challenges from the US should their particular sector be targeted in the AUSFTA. In this case, Canadian exporters can hope for a gradual phase-in of barrier reductions in order to allow them the opportunity to develop new strategies. Canadian exporters of previously banned or strictly regulated products could possibly emulate the processes US firms used in order to meet Australian SPS regulations. Essentially, Canadian firms will be working to reduce the transactions costs of meeting Australia's SPS regulations which will improve competitiveness by following the US's example. Additionally, in the medium term the Canadian government could negotiate with Australia at any subsequent WTO Rounds to apply equal MFN SPS rules with those given to the US under AUSFTA.

Historically, Australia has staunchly defended its strict quarantine controls, arguing they are based solely on scientific considerations, comply with international agreements on SPS controls, and are justified given that Australia's historic geographic isolation has left it free of

¹⁰⁶ Australian Pork Industry Overview 2003

¹⁰⁷ Washington Times, 'Farmers Rein In Australia Trade Bid', by Carter Dougherty in National Pork Producers Council site.

¹⁰⁸ Personal discussion with Dennis McGivern, Senior Livestock and Meat Specialists, Sparks Consulting Co, Memphis TN, USA

¹⁰⁹ The Canadian Trade Commissioner Service, Agri-Food Sector Profile: AUSTRALIA

many of the plant and animal diseases found in other countries. It is hard to see Australia retreating from these positions in the context of the AUSFTA. It is likely that Australia and the US will create institutions that seek to harmonize quarantine practices including inspection standards, and to examine technical differences to ensure they do not lead to disputes.¹¹⁰

Both the US and Australia have stated their desire to strengthen cooperation between their respective SPS authorities, as well as to strengthen collaboration in working to implement the WTO SPS Agreement and to enhance cooperation with each other in relevant international bodies on developing international SPS standards, guidelines, and recommendations.¹¹¹ With such reciprocal objectives, the actual degree to which the US is able to persuade Australia to loosen its SPS regulations bears close observation by third parties such as Canada.

5.2.2.2. GM Food Approvals and Labeling

Australia has a mandatory standard that prohibits the sale of food produced using gene technology, unless the food has been assessed by Food Standards Australia New Zealand (FSANZ) and listed in the food code standard. There is a transitional exemption to this prohibition allowing imported GM foods to stay on the market if (1) an application was made to FSANZ for its approval before April 20, 1999; and (2) evidence existed that the particular food item has been permitted for sale by another nation's (excluding New Zealand) regulatory agency. FSANZ has received 23 applications for safety assessments of bioengineered foods as of December 31, 2002. Of these, 20 have been approved, two applications for approval were withdrawn, and one remains in the approval process¹¹².

The US is expected to push for fewer Australian restrictions on genetically modified organisms (GMOs),¹¹³ as part of its strategy of getting GM wheat freely traded around the world¹¹⁴. Australia is nervous about GM crops and is calling for a moratorium on the introduction of GM rape, and is hesitant to make fast decisions regarding other GM crops. Australian wheat marketers believe their future lies in non-GM branding and that wheat does not necessarily have to be a homogenous bulk product¹¹⁵.

Australia now requires that GM foods be labeled where novel DNA or a novel protein is present in the final product¹¹⁶. The burden of proof is placed upon business, including importers, who must supply proof of having met the regulations or conducted testing, at the business's expense¹¹⁷.

Australia's concessions, if any, in this contentious area will have relevance for Canada as it too is grappling with GMO issues in the domestic market. GM product is available in Canada and, as yet, there is no segregation or labeling requirements in the Canadian market between GM and non-GM product. Australia's reaction to US pressure to loosen GM

¹¹⁰ The Australian APEC Study Centre, Monash University, 'An Australia-USA Free Trade Agreement: Issues and Implications', August 2001

¹¹¹ Australian Dept of Foreign Affairs and Trade, US Office of the Trade Representative

¹¹² US Office of the Trade Representative, *Foreign Trade Barriers Report, Australia, 2003*

¹¹³ *Europe Intelligence Wire*, 'Australia and US open talks on controversial free trade agreement', March 16, 2003

¹¹⁴ Van den Bos, Jim, 'US facing strong global resistance to GMs', *Crops*; 7/19/2003, p48

¹¹⁵ Van den Bos, Jim, 'US facing strong global resistance to GMs', *Crops*; 7/19/2003, p48

¹¹⁶ The Canadian Trade Commissioners Service, Agri-Food Sector Profile: AUSTRALIA

¹¹⁷ US Office of the Trade Representative, *Foreign Trade Barriers Report, Australia, 2003*

restrictions will indicate Australia's stance towards Canadian GM exports in the future in transgenic crops such as canola, corn, flax, potatoes and possibly wheat. Should Australia make concessions to GM products in the AUSFTA, Canadian exports of such products will be competing with US products which will have had a competitive head start. In any case, Australia cannot offer the US special SPS concession in the AUSFTA because it would be vulnerable to a challenge under the WTO principle of non-discrimination whereby all potential exporters must be treated equally.

5.2.2.3. Commodity Boards and Agricultural Support

Australian exports of almost all wheat, barley, rice, and sugar remain under the exclusive control of commodity boards. The Wheat Export Authority (WEA) has veto rights over bulk export requests retained by a grower-owned former subsidiary, and the WEA's export monopoly is effective until 2004.

Having terminated export support payment schemes and internal support programs for dairy producers, the Australian Government has made a Dairy Industry Adjustment Package available to dairy producers, from June 2000, with payments scheduled over eight years. Also, in 2002, the Australian Government announced an A\$150 million (over four years) sugar industry assistance package to support regional adjustment, diversification and industry rationalization. The package also includes interest rate subsidies to support replanting and short-term income support measures. A levy on domestic sugar sales was intended to fund a large proportion of the package.

The US is seeking the elimination of government export arrangements for wheat, barley, sugar and rice, in particular, by requiring Australia to eliminate exclusive export rights for its state-trading enterprises (STEs), end any special financing privileges for these enterprises, provide more information on the activities of and special rights or privileges they accord to STEs, and to require STEs to provide information on their operations.

The US position with Australian STE's is similar to its complaint regarding the Canadian Wheat Board. It is likely that the Australian reaction to this request will be similar to that of Canada and concessions will not likely be forthcoming. At the conclusion of the fourth Round of negotiations at the end of October 2003, Australia's negotiators stated their clear position that STE's do not distort trade and this position has been made very strongly and clearly to the US, however, the Australians are willing to discuss the issue.¹¹⁸ Given that Australia has US agricultural production and export subsidies as part of its negotiating priorities, both sides have sufficient leverage to complicate negotiations.

While both countries would be likely to use the opportunity of FTA negotiations to push their interests on subsidies (as the US views STE financing schemes), it is not clear how this might be achieved in practice. Subsidies are not by their nature bilateral measures, and therefore may be difficult to remove on a bilateral basis, although bilateral negotiations have in the past succeeded in imposing some restraint on subsidy activity.¹¹⁹

¹¹⁸ Australian Dept of Foreign Affairs and Trade, Transcript - Media briefing in Canberra following the fourth round of Free Trade Agreement negotiations (27-31 October) between Australia and the US, 31 October, 2003.

¹¹⁹ The Australian APEC Study Centre, Monash University, *'An Australia-USA Free Trade Agreement: Issues and Implications'*, August 2001

5.3 SERVICES

Australia has an active trade in services, importing roughly A\$32 billion and exporting A\$31.2 billion in 2001-02. As reported above, since 1991-92, Australia's trade in services has increased by an average of 7% year. Exports of services consisted of travel services (47%), transportation and passenger (21%), 28% other services and 3% freight services for 2001-02. In the same period, imports of services comprised mostly freight services (18%), travel services (34%), passenger and transportation (16%), and 32% other services¹²⁰.

The US was the single largest destination for Australia's exports of services in 2001-02, taking exports valued at A\$4.7 billion (15% of total exports of services) as well as the single largest source of services with imports valued at A\$5.9 billion, accounting for 19 percent of total services imports.

Regarding the US pattern of services trade, the UK is both the largest destination and source of services trade. Major markets for US exports include the European Union (US\$86 billion of US commercial services in 2001), Japan (US\$31 billion), and Canada (US\$24 billion). Mexico is the largest of the emerging markets for US services (US\$15 billion), but notably, over a dozen emerging markets around the world now import more than US\$1 billion in US services each year. After declining from the record US\$277 billion reached in 2000 to US\$266 billion in 2001, US services exports recouped most of that loss to reach US\$276 billion in 2002, and they are forecast to reach US\$335 billion by 2005.¹²¹

Despite both the US and Australia having among the most open services sectors in the world, both have stated specific objectives for services trade under the AUSFTA:

US

- Pursue disciplines to address discriminatory and other barriers to trade in Australia's services market. Pursue a comprehensive approach to market access.
- Enhanced access for US services firms to telecommunications and any other appropriate services sectors in Australia's market.
- Seek improved transparency and predictability of Australia's regulatory procedures, specialized disciplines for financial services, and additional disciplines for telecommunications services and other sectors as necessary.
- Seek appropriate provisions to ensure that Australia will facilitate the temporary entry of US business persons into its territories, while ensuring that any provisions do not require any changes to US laws and regulations relating to permanent immigration and permanent employment rights.

Australia

- Seek reduced impediments in accessing the US market for Australian services suppliers such as providers of professional services, other business services, education services, environmental services, financial services and transport services.

¹²⁰ Australian Department of Foreign Affairs and Trade, Market Information and Analysis Section, 'Trade in Services - Australia, 2001-02', April 2003

¹²¹ US Department of Commerce, International Trade Administration, Office of Service Industries, 'Services Exports and the US Economy', March 2003

- Explore the scope for improvements in the recognition of the qualifications and experience of Australian professionals in the US.
- Look for opportunities to reduce any unnecessary access impediments imposed on Australian service suppliers by licensing requirements, standards or other regulations in the US, including Australians seeking access to US capital markets.
- Pursue opportunities to enhance the temporary entry of businesspersons and other Australians to the US.
- Ensure that the negotiations take account of Australia's cultural and social policy objectives, and the need for appropriate regulation and support measures to achieve these objectives in areas such as audiovisual media.
- Ensure that the outcome of the negotiations does not limit the ability of government to provide public services, such as health, education, law enforcement and social services.

Domestic laws in the US at both the federal and state levels somewhat constrain domestic and overseas service providers alike, including those in the financial services and telecommunications sectors. This arises due to the lack of transparency in, and divergence of access conditions at the State level, as well as the frequent absence of a transparent regulatory regime for the operation of foreign professional service suppliers¹²². Skills recognition and residency requirements also affect Australian architects, engineers and accountants. Australia is seeking the removal of these restrictions in the AUSFTA negotiations; however, past experience with the US does not give a good indication of how it might be dealt with. The US has tended to negotiate separate MRAs¹²³.

Currently, foreign-owned firms seeking access to the US market still face considerable barriers, particularly in the satellite services and the mobile services sector. The US undertook GATS commitments on most telecommunications services but retained several restrictions. Foreign direct investment in common carrier radio licenses is limited to 20 percent, and a market access restriction on satellite-based services, where proceedings by the Federal Communications Commission on spectrum allocation and licensing are not always carried out in an objective, transparent, timely and non-discriminatory manner. Additionally, access of third generation mobile communication systems to the US market could be restricted due to lack of availability of frequencies. In air transport, the US Federal Aviation Act prohibits foreign investors from taking more than a 49 percent stake in a US carrier and restricts the holding of voting stock to 25 percent.¹²⁴

The Australian services market is generally open, and many US financial services, legal and travel firms are established there. The banking sector was liberalized in 1992, allowing foreign banks to be licensed as either branches or subsidiaries. Although Australia now has a relatively liberal financial services sector, there are two discriminatory measures remaining. There is a limitation on the scale of ownership of Australia's major banking institutions and restrictions on foreign bank branches.¹²⁵ Additionally, foreign insurance companies face

¹²² EU Market Access Database

¹²³ The Australian APEC Study Centre, Monash University, '*An Australia-USA Free Trade Agreement: Issues and Implications*', August 2001

¹²⁴ EU Market Access Sectoral and Trade Barriers Database

¹²⁵ EU Market Access Sectoral and Trade Barriers Database

Australian limitations including: a) the prohibition of foreign branch life insurers; b) the prohibition on placing life insurance business with foreign insurers; c) restrictions on actuaries for general insurance; d) restrictions on actuaries for life insurance; and e) greater disclosure requirements to clients for policies with a foreign insurer.¹²⁶

Australia's local content rules for broadcasting are viewed as restricting market access for US broadcasting products. This has led to concerns expressed by Australian cultural industries – film and television production in particular – that an FTA will lead to removal of the preferences granted to Australian cultural industries. The Australian Government made a commitment to protect the Australian audiovisual industry in future trade agreements. Thus far, US negotiators have played down suggestions the US was keen to dismantle Australia's local content regulations for television, indicating that the issue had failed to be highlighted by the US film sector.¹²⁷

Australian broadcast licensing rules were eased in 1992, allowing up to 20 percent of the time used for paid advertisements to be filled with foreign-sourced material. Local content regulations also require that 55 percent of a commercial television station's weekly broadcasts between 6:00 a.m. and midnight must be dedicated to Australian-produced programs. Regulations governing Australia's pay-TV industry require that channels carrying drama must devote 10 percent of their annual program budget to new Australian-produced content.¹²⁸

At the conclusion of the Fourth Round of negotiations, Australian negotiators explained policy positions on cultural issues. Australia's essential goal is to ensure that whatever commitments are agreed by to in this area, sufficient flexibility must be maintained to ensure Australia's cultural objectives can be met.¹²⁹ The US position indicated a willingness to accept good quotas on existing broadcasting and subsidization that occurs in cultural industries, but on a lesser scale than what Australia currently has proposed.¹³⁰

Of note for Australia, under NAFTA, Canada exempted its cultural industries from the scope of the provisions on services. This has also been the experience under the GATS negotiations where most countries, including Australia, exempted audiovisual services from the application of the agreement.¹³¹ It is possible that Australia will be seeking similar exemptions for some of its cultural industries in the AUSFTA.

For Australia, major gains in distribution and logistics via open operating environments in telecommunications and financial services have been secured. In order to ensure economic

¹²⁶ EU Market Access Sectoral and Trade Barriers Database

¹²⁷ *AsiaPulse News*, 'Australia's Pharma Benefit Scheme Unaffected by FTA with US,' May 23, 2003 p3071.

¹²⁸ US Department of State, Bureau of Economic and Business Affairs '2001 Country Reports on Economic Policy and Trade Practices', February 2002

¹²⁹ Australian Dept of Foreign Affairs and Trade, Transcript - Media briefing in Canberra following the fourth round of Free Trade Agreement negotiations (27-31 October) between Australia and the US, 31 October, 2003.

¹³⁰ Australian Dept of Foreign Affairs and Trade, Transcript - Media briefing in Canberra following the fourth round of Free Trade Agreement negotiations (27-31 October) between Australia and the US, 31 October, 2003

¹³¹ The Australian APEC Study Centre, Monash University, '*An Australia-USA Free Trade Agreement: Issues and Implications*', August 2001

growth, Australia has major gains to secure from an FTA by securing deep integration of Australia's telecommunications and financial services industries with those in the US market.¹³²

5.3.1 Canadian SERVICES exports - AUSFTA Implications

Australia's dependence on natural resources for economic activity has been gradually declining. Services account for 70 percent of the Australian economy, manufacturing 13.3 percent, mining 4.6 percent, and agriculture only 3.4 percent. Given Australia's focus on the 'New Economy' and the impact that ICT industry has on its overall growth, services in the ICT sector should be an export priority for Canada. Australian demands for ICT services include application service providers, customer relationship management services, E-commerce applications and knowledge management services.

The largest IT services companies operating in Australia are multinationals such as IBM Global Services, EDS and CSC. Use of IT services is directly related to size of business, with larger firms being much heavier users of IT services compared to smaller firms. Australian imports of IT services have been growing rapidly, increasing to almost A\$3.0 billion in 2000; however, Canadian firms interested in entering this market may be better served by focusing on providing information technology services/solutions to local small-to-medium sized organizations (SMEs).

ICT services still represent a relatively small portion of total Canadian ICT trade. They accounted for 17% of exports and 7% of imports in 2001. Exports of ICT services totaled C\$5.2 billion in 2001 with a marked decrease in software and computer services.¹³³ Global exports of Canadian ICT goods totaled C\$39.4 billion in 2000. Of this amount, C\$229 million was exported to Australia, representing our eighth largest export market. The compound annual growth rate of ICT exports to Australia was 11% from 1993-2000.¹³⁴

In terms of ICT services, there are restrictions in Australia on the use of the Internet for broadcasting. Australian telecommunications providers face high costs for access to US telecommunications and ISP systems¹³⁵. The US and Australia both have regulations governing e-commerce, however, as with any new regulatory regime, harmonization between them would foster better trade flows. The AUSFTA will facilitate this. In turn, better trade flows and a certain operating environment will encourage investment, from US firms seeking new markets in Australia and Australian firms wanting better integration with US industry.

For other service exports from Canada, given that the Australian services industry is relatively open to foreign suppliers, the AUSFTA will not significantly reduce barriers to US services exports and hence affect Canadian services exports. However, the attention and focus on the AUSFTA will serve to generate interest amongst potential US exporters that will compete

¹³² 'Free Trade Agreements in the era of globalization—new instruments to advance new interests—the case of Australia.' Alan Oxley, *Australian Journal of International Affairs*, Vol. 57, No. 1, pp. 165–186, 2003

¹³³ Industry Canada, 'Canada's Information & Communications Technologies Trade Performance, 1995 – 2001'

¹³⁴ DFAIT, 'The Information Technology Services Market in Australia', July 2002

¹³⁵ The Australian APEC Study Centre, Monash University, '*An Australia–USA Free Trade Agreement: Issues and Implications*', August 2001

with Canadian service exporters. As a result, Canadian services could potentially lose market share as their larger, well financed, and resource-endowed US counterparts pursue opportunities brought to light by the AUSFTA. The only foreseeable disadvantage of the AUSFTA for Canadian service exporters is in the possible negotiation of an MRA of professional qualifications between Australia and the US. Canadian service providers would not have the benefits of an MRA. Canada shares a Commonwealth history with Australia and it is conceivable that similar professional standards are shared. However, a Canada-Australia MRA would be nothing but a positive force in facilitating greater service exports from Canada destined for Australia.

Canada is the 3rd largest provider of services to the US, (after the UK and Japan). The largest sector is Other Services valued at over US\$10 billion in 2002, followed by travel (US\$6.2 billion), royalties and licenses (US\$2.6 billion), and passenger fares (US\$1.7 billion)¹³⁶. The open market conditions for Canadian services exports created under NAFTA makes cross-border movement easier for four specific types of business persons who are citizens of the member countries: business visitors, professionals, traders and investors, as well as intra-company transferees. This relative ease of movement for service providers, in addition to heavily interdependent and integrated economies, enables Canadians to enjoy large service exports to the US. Table 11 illustrates the US's services trade for 2002, by category and country.

¹³⁶ US Department of Commerce, International Trade Administration, Bureau of Economic Analysis

Table 11

| US Services Trade, Type and Country, 2002 | | | | | | |
|--|----------------|--------------|-----------------|----------------------|----------------------------|------------------------|
| millions of US\$ | | | | | | |
| | Total services | Travel | Passenger fares | Other transportation | Royalties and license fees | Other private services |
| Exports | | | | | | |
| All countries | 279,495 | 66,547 | 17,046 | 29,166 | 44,142 | 122,594 |
| 10 largest countries* | 117,756 | 31,378 | 9,669 | 10,191 | 18,232 | 48,286 |
| United Kingdom..... | 31,816 | 8,177 | 2,813 | 1,932 | 4,452 | 14,442 |
| Japan..... | 29,688 | 8,492 | 2,809 | 2,825 | 6,352 | 9,210 |
| Canada..... | 24,294 | 6,268 | 1,717 | 2,624 | 3,091 | 10,594 |
| Germany..... | 16,056 | 2,934 | 1,001 | 2,018 | 3,090 | 7,013 |
| Mexico..... | 15,902 | 5,507 | 1,329 | 792 | 1,247 | 7,027 |
| Other countries | 161,739 | 35,169 | 7,377 | 18,975 | 25,910 | 74,308 |
| Imports | | | | | | |
| All countries | 205,234 | 58,044 | 19,969 | 38,527 | 19,258 | 69,436 |
| 10 largest countries* | 88,083 | 24,260 | 7,260 | 13,968 | 9,746 | 32,849 |
| United Kingdom..... | 26,587 | 5,561 | 3,290 | 2,657 | 1,493 | 13,586 |
| Canada..... | 18,414 | 6,489 | 594 | 3,589 | 1,048 | 6,694 |
| Japan..... | 17,312 | 2,874 | 1,051 | 4,169 | 4,997 | 4,221 |
| Germany..... | 14,703 | 2,275 | 1,531 | 2,560 | 2,091 | 6,246 |
| Mexico..... | 11,066 | 7,061 | 794 | 993 | 117 | 2,101 |
| Other countries | 117,151 | 33,784 | 12,709 | 24,559 | 9,512 | 36,587 |
| *Ranked by dollar value of total exports or imports. | | | | | | |
| Source: US Dept of Commerce, International Trade Administration, Bureau of Economic Analysis | | | | | | |

Given this status of integration and interdependence, the impact of the AUSFTA on Canadian services exports to the US is likely to be small. The relative small size of the Australian service industry compared to the very large US services market means that any multiplier effects to third parties will be of a small magnitude.

5.4 INVESTMENT

Similar to Canada in terms of small population with a large geographical base, one of Australia's biggest challenges is finding sufficient capital to finance growth. Foreign investment creates employment - over 500, 000 Australians are employed by firms with majority foreign ownership, indicating the importance of FDI to the Australian economy. Many more work in firms and communities that rely on foreign-owned companies as customers and suppliers of goods and services. One in five jobs in manufacturing, and one in four jobs in mining are in firms with majority foreign ownership.¹³⁷

There are no comprehensive statistics on the level of foreign ownership in Australia, but it likely approaches 40 percent of total equity in manufacturing and 50 percent in mining. The leading investor countries at June 2002 were the US (29%), the UK (27%) and Japan (6%), each accounting for a total of A\$242.1 billion for the US, A\$223.9 billion for the UK and A\$48 billion for Japan. Of this, portfolio investment accounted for 55 percent, direct investment for 25 percent, financial derivatives for 4 percent and other investment liabilities, 16 percent¹³⁸.

The largest concentration of FDI in Australia has been in finance and insurance, where accumulated foreign liabilities totaled A\$451.3 billion in June 2002. Manufacturing followed with A\$99.9 billion, mining (A\$65.1 billion), wholesale trade (A\$32 billion), and property and business services (A\$24.7 billion)¹³⁹.

Partly in response to Australia's heavy burden of external debt, the Australian government has relaxed limits on foreign ownership, even in such traditionally sensitive areas as broadcasting, airlines, residential housing, real estate and telecommunications. There is no discrimination in Australia's capital markets against foreign-owned companies seeking credit or loan facilities.

Despite this relative openness, the Australian federal government maintains the power to block proposals that are determined to be against the national interest (as defined by existing government policy and law, and economic development priorities). The Foreign Investment Review Board (FIRB) screens all large foreign investment proposals to determine whether they are contrary to the national interest. Proposals can be approved or rejected outright, or changes requested to protect national interest. The trigger for FIRB involvement is the size and type of investment being proposed, usually in the A\$50 million range.¹⁴⁰

The US has objected to the continued use of the FIRB mechanism, with its relatively broad national interest test. Australia's commitments under the General Agreement on Trade in Services of the WTO are limited as a result of Australia's screening program. The US is the largest FDI investor in Australia, focusing on manufacturing, with two-way investment flows

¹³⁷ Australian Dept of Foreign Affairs and Trade, 'Exploding the Myths'

¹³⁸ EIU, 'Country Commerce Australia' – July 2003

¹³⁹ EIU, 'Country Commerce Australia' – July 2003

¹⁴⁰ EIU, 'Country Commerce, Australia', July 2003

making a substantial and positive contribution to the economic relationship. Tables 11 and 12 provide details on US FDI, on an industry basis.

Table 11 indicates that US FDI in Australia remains focused in manufacturing (transportation, metals and chemicals being the largest components), with mining a close second. Of note are FDI in financial and insurance, technical, scientific and professional services as well as 'other' services, followed by utilities.

Table 12 indicates that as of 2002, Australian FDI in the US is modest compared to US activities in Australia. In 2000, Australia was the eighth largest owner of US assets. In 2001, Australian direct investment in the US was \$A98 billion. Hence, there appears to be more interest investing in the US economy than exporting goods to it.¹⁴¹

¹⁴¹ 'Free Trade Agreements in the era of globalization—new instruments to advance new interests—the case of Australia', Alan Oxley, *Australian Journal of International Affairs*, Vol. 57, No. 1, pp. 165–186, 2003

Table 12
U.S. Direct Investment Abroad: Income, 2002

[Millions of dollars]

| | All industries | Mining | Utilities | Manufacturing | | | | | | | | Wholesale trade | Information | Depository institutions | Finance (except depository institutions) and insurance | Professional, scientific, and technical services | Other industries |
|----------------------------------|----------------|---------------|--------------|---------------|--------------|---------------|-------------------------------|--------------|----------------------------------|--|--------------------------|-----------------|-------------|-------------------------|--|--|------------------|
| | | | | Total | Of which: | | | | | | | | | | | | |
| | | | | | Food | Chemicals | Primary and fabricated metals | Machinery | Computer and electronic products | Electrical equipment, appliances, & components | Transportation equipment | | | | | | |
| All countries | 123,889 | 10,165 | 1,552 | 31,279 | 3,440 | 12,065 | 973 | 1,412 | 3,764 | 397 | 1,477 | 13,229 | 237 | 2,270 | 14,005 | 2,968 | 48,184 |
| Canada | 11,098 | 2,062 | 2 | 4,733 | 516 | 1,021 | 186 | 141 | 131 | 116 | 946 | 193 | -76 | 348 | 1,531 | 189 | 2,116 |
| Europe | 59,487 | 1,586 | 363 | 15,519 | 1,729 | 8,540 | 110 | 602 | 1,696 | 13 | 363 | 7,489 | 14 | 1,113 | 2,706 | 907 | 29,790 |
| United Kingdom | 11,250 | 389 | -7 | 2,105 | 768 | 525 | -6 | 91 | 141 | -104 | 15 | 812 | -329 | 225 | 738 | 312 | 7,005 |
| Mexico | 4,532 | 62 | -1 | 2,305 | 358 | 1,134 | 68 | 23 | -592 | 57 | 200 | 192 | -113 | 407 | 686 | 59 | 933 |
| Australia | 2,596 | 728 | 101 | 799 | 66 | 166 | 317 | 56 | -66 | 1 | 204 | 196 | -95 | 121 | 226 | 220 | 299 |
| Japan | 6,807 | 2 | 0 | 1,089 | 46 | 463 | 37 | 66 | -192 | 23 | -245 | 742 | 570 | -81 | 3,438 | 647 | 399 |
| <i>Addenda:</i> | | | | | | | | | | | | | | | | | |
| European Union (15) ² | 48,771 | 685 | 289 | 14,247 | 1,627 | 8,231 | 49 | 534 | 1,495 | -86 | 275 | 5,738 | 560 | 587 | 2,331 | 810 | 23,525 |
| OPEC ³ | 3,298 | 1,595 | 314 | 404 | 68 | 201 | 9 | -9 | 2 | 5 | 10 | 156 | -95 | 211 | 9 | 98 | 607 |

NOTE: In this table, unlike in the international transactions accounts, income is shown net of withholding taxes and without a current-cost adjustment.

* Less than \$500,000 (+/-).

D Suppressed to avoid disclosure of data of individual companies.

1. The European Union (15) comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

3. OPEC is the Organization of Petroleum Exporting Countries. Its members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

Source: US Dept of Commerce, Bureau of Economic Analysis, International Investment Position

Table 13

Foreign Direct Investment in the United States: Income, 2002

[Millions of dollars]

| | All industries | Manufacturing | | | | | | | | Wholesale trade | Retail trade | Information | Depository institutions | Finance (except depository institutions) & insurance | Real estate, rental & leasing | Professional, scientific, and technical services | Other industries |
|----------------------------|----------------|---------------|------------|-----------|-------------------------------|------------|-----------------------------------|--|--------------------------|-----------------|--------------|-------------|-------------------------|--|-------------------------------|--|------------------|
| | | Total | of which: | | | | | | | | | | | | | | |
| | | | Food | Chemicals | Primary and fabricated metals | Machinery | Computers and electronic products | Electrical equipment, appliances, & components | Transportation equipment | | | | | | | | |
| All countries | 38,821 | 21,706 | -71 | 7,326 | 114 | -131 | -1,543 | 4,454 | 4,204 | 13,067 | 2,008 | -4,354 | 2,431 | 305 | 1,866 | 5 | 1,787 |
| Canada | -1,233 | -1,043 | 46 | 229 | -42 | (D) | -1,713 | (D) | (D) | 26 | 90 | -647 | 120 | 71 | -75 | -47 | 274 |
| Europe | 32,348 | 19,311 | -228 | 6,865 | 295 | 243 | (D) | 4,499 | 1,825 | 8,067 | 1,897 | 1,138 | 1,108 | -1,851 | 817 | 632 | 1,229 |
| United Kingdom .. | 12,309 | 4,332 | 298 | 666 | 163 | 101 | 103 | (D) | 344 | (D) | 127 | 420 | (D) | 1,096 | 116 | -39 | 1,047 |
| Mexico | -369 | (D) | (D) | (*) | -42 | (*) | (*) | (*) | (D) | 22 | (D) | -5 | (D) | 5 | (*) | (D) | -218 |
| Australia | 749 | (D) | (D) | -2 | (D) | (D) | (*) | (D) | (*) | -5 | -4 | -3 | (D) | 72 | 6 | -4 | (D) |
| Japan | 7,323 | 3,144 | 109 | 186 | -19 | -5 | 213 | -84 | 2,425 | 4,836 | 99 | (D) | (D) | 142 | 785 | -138 | 243 |
| Addenda: | | | | | | | | | | | | | | | | | |
| European Union (15) | 24,538 | 11,512 | -328 | 3,796 | 131 | 206 | -511 | 1,210 | 1,808 | 7,792 | 1,895 | -949 | 1,563 | 210 | 788 | 590 | 1,136 |
| OPEC /2/..... | 139 | 12 | (*) | -2 | 0 | (*) | (*) | (*) | 0 | (D) | (*) | (*) | (D) | (*) | 20 | 0 | 13 |

NOTE.--In this table, unlike in the international transactions accounts, income is shown net of withholding taxes and without a current-cost adjustment.

* Less than \$500,000 (+/-).

D Suppressed to avoid disclosure of data of individual companies.

1. The European Union (15) comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.
2. OPEC is the Organization of Petroleum Exporting Countries. Its members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

Source: US Dept of Commerce, Bureau of Economic Analysis, International Investment Position

Both the US and Australia have stated objectives for investment related issues in the AUSFTA:

US

- Seek to establish rules that reduce or eliminate artificial or trade-distorting barriers to US investment in Australia, including investment screening by the Australian Government, while ensuring that Australian investors in the US are not accorded greater substantive rights with respect to investment protections than US investors in the US, and to secure for US investors in Australia important rights comparable to those that would be available under US legal principles and practice.
- Seek to ensure that US investors receive treatment as favorable as that accorded to domestic or other foreign investors in Australia and to address unjustified barriers to the establishment and operation of US investments.
- Provide procedures to resolve disputes between US and Australian investors that are in keeping with the goals of making such procedures expeditious, fair and transparent.

Australia

- Seek an enhanced framework to govern investment flows between Australia and the US that will complement the outcome of the negotiations in relation to trade in goods and services.
- Look for opportunities to reduce any unnecessary impediments that licensing requirements, standards or other regulations in the US impose on Australian investors.
- Ensure that the negotiations take account of Australia's foreign investment policy, and the need for appropriate policies to encourage foreign investment, while addressing community concerns about foreign investment.

Essentially, both countries are seeking national treatment for their investors. A key goal of Australia is to create greater awareness of investing 'Down Under' in the US, which in turn will contribute to continuing economic growth. National treatment provisions will help facilitate that investment flow. Similarly, national treatment provisions should facilitate greater Australian investment in the US, which has become the foremost destination of Australian FDI. The major barrier to Australian FDI currently is the US federal system where state and local authorities usually have a bigger impact on foreign investors than federal laws.

An FTA might cover other issues relevant to the interests of investors in both countries such as taxation of foreign investments. Profits from investments in the US repatriated to Australia face a withholding tax of 15 percent while the corresponding figure for US investments in Australia is 10 percent¹⁴². An existing double taxation treaty covers this issue but could be included under the auspices of the AUSFTA.

5.4.1. Canadian INVESTMENT - AUSFTA Implications

Tables 11 and 12 also provide Canada's investment position vis-à-vis the US, and illustrate once again the high degree of integration between the NAFTA partners. Clearly, Canadian and US FDI in each other's economies is an ongoing activity. The largest Canadian affiliates abroad are located in the US, and similarly, the largest foreign affiliates in Canada are from

¹⁴² The Australian APEC Study Centre, Monash University, 'An Australia-USA Free Trade Agreement: Issues and Implications', August 2001

the US.¹⁴³ Investment is driven by trade and market access. Given the high degree of economic integration between the two countries, it is logical to expect investment flows will follow as firms make strategic decisions based upon cross-border opportunities created by trade.

FDI inflows to Canada originate mainly from the US, accounting for about 90 percent of the total in 2001. FDI outflows are more diversified, with the US receiving about 62 percent of the total in 2001. Overall, the US and the UK are Canada's main investment partners, with France overtaking the United Kingdom in 2002 (inward stock), and Barbados ranking third (outward stock). Together, Canada's NAFTA partners -- the US and Mexico -- account for a declining share of Canadian outward stock (about 48 percent in 2002, down from about 61 percent in 1990), as Canada's outward FDI is increasingly diversified across regions.¹⁴⁴

The tertiary sector ('other investment activity') has increased in importance for outward flows (accounting for about 48% in 2001), while for inward FDI, mining accounted for more than half of the total. In outbound FDI the share of the tertiary sector rose to about 60 percent in 2002 (up from about 52 percent in 1990) while inbound FDI, the share was almost stable at about one third of the total. In both directions, financial services are the most important industry for Canadian FDI. Interestingly, in financial services, the United Kingdom is the most important host and home country for the largest affiliates.

In terms of the AUSFTA, the one area of potential investment diversion is in mining. As Canada and Australia are both heavily resource-endowed, US companies who take advantage of new opportunities created by the AUSFTA may choose to invest in Australia over Canada. Given that Australia is currently developing several large magnesium mining and production facilities as well as fostering a nascent titanium sector, significant opportunities for US investors interested in mining exist, possibly at Canada's expense.

While geography is an important influence upon capital-intensive investment in mining, investment in manufacturing is more focused on economic activity, proximity to suppliers and markets as well as trade flows. As a result, US investment diversion away from Canada to Australia in manufacturing is less likely to result from the AUSFTA. Manufacturing involves many stages and processes, suppliers, parts and distribution systems. This integration can easily occur across borders, with relevant investments diversified across many sectors. As a result, the impact of the AUSFTA will be less in manufacturing -- too many US firms are already heavily involved financially in Canadian operations. The opportunity cost of retaining investments in Canada's manufacturing is not as large as the opportunity cost involved when choosing investments in the mining sector.

Of note, however, Canadian manufacturers are faced with competitive challenges in trade and investment as further liberalization occurs in TCF. As duties on and barriers to imported TCF are removed, Canadian manufacturers of TCF will have far larger issues to cope with than those arising as a result of the AUSFTA. As production and competitiveness change, so too does investment. Thus changes in investment patterns will occur, albeit due to forces other than those arising from the AUSFTA.

¹⁴³ UNCTAD, World Investment Directory, 'Country Profile: Canada World Investment Directory', March 2003

¹⁴⁴ UNCTAD, World Investment Directory, 'Country Profile: Canada World Investment Directory', March 2003

Given that the World Economic Forum has dropped Canada's growth ranking from 9th to 16th, while Australia has remained in 10th position, Australia is an attractive destination for investors. The two countries are also closely ranked in terms of business competitiveness, Canada dropping to 12th in 2003 from 10th in 2002, compared to Australia's 11th place. However in competitiveness, Australia improved from 14th in 2002 to its 2003 11th position.¹⁴⁵ These indicators only emphasize Australia's growing attractiveness for the global investor in comparison to Canada's performance.

For Canadian investors into Australia, the AUSFTA means that Canadian firms will face the Australian status quo of the FIRB approval process as well as any industry specific restrictions. Should the US be successful in obtaining national treatment for its FDI activities, those firms will have the competitive advantage of certainty in a foreign market. Canadians undertaking FDI will not have this advantage.

Although Australia is a minor destination for, as well as source of, FDI for Canada, these implications are worth examining as studies for further economic integration via APEC, the Cairns Group and the WTO.

6.0 NEW ZEALAND

As Australia's partner in the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA, more commonly known as the CER), the AUSFTA will affect New Zealand significantly. Moreover, New Zealand has also indicated its preference to negotiate its own FTA with the US.

The current AUSFTA negotiations exclude New Zealand and there are no US plans to seek a link between the two. Although New Zealand has expressed interest in negotiating an FTA with the US, according to recently announced US criteria for FTA's, New Zealand does not qualify¹⁴⁶. FTA candidates must support US foreign policy and cooperate with its national security goals as part of 13 criteria used to determine potential FTA partners for the US. The US views FTA's as mechanisms to support broader policy goals, social change, or economic reforms.

The US is also apparently withholding FTA's based on foreign policy disagreements¹⁴⁷. New Zealand has a long history of refusing entry for US nuclear vessels into New Zealand waters and did not support the US-led war on Iraq.¹⁴⁸ New Zealand envisions a "parallel but separate FTA negotiation following or near completion of the AUSFTA" according to the New Zealand Trade Negotiations Minister.¹⁴⁹ Given the focus of the second Bush administration's foreign policy directions, such optimism may not be warranted. New Zealand continues to lobby the US business community as well as congressional supporters for a prospective NZUSFTA. US

¹⁴⁵ World Economic Forum, 'Global Competitiveness Report 2003-2004'

¹⁴⁶ *Inside US Trade*, 'Zoellick says FTA candidates must support US foreign policy', May 16, 2003

¹⁴⁷ *Inside US Trade*, 'Zoellick says FTA candidates must support US foreign policy', May 16, 2003

¹⁴⁸ *Inside US Trade*, 'Officials refuse to rule out New Zealand FTA before house panel', June 27, 2003

¹⁴⁹ *Inside US Trade*, 'Zoellick says relationship with New Zealand makes FTA a challenge', May 23, 2003

officials have stated before a House Panel that while “New Zealand remains a possibility, there has been no decision whether to pursue an FTA with New Zealand and there has been no decision not to pursue an FTA with New Zealand”.¹⁵⁰ In the meantime, an examination of New Zealand’s effect on the AUSFTA, its implications for Canada is a valid exercise. Additionally, a study of the impacts of a possible NZUSFTA for Canadian trade with both New Zealand and the US is useful for future reference.

6.1 OVERVIEW OF TRADE RELATIONS

New Zealand is a small, open and export-oriented economy, whose economic cycles are closely aligned to economic trends in Australia. New Zealand’s major trading partners are Australia, the US and Japan, although (similar to Australia) the country was historically developed as a peripheral commodity producer for the United Kingdom¹⁵¹ Canada, as a result, has Commonwealth Privileges with New Zealand. Exports are largely agricultural based (60% of total), followed by fish, forestry products, textiles, machinery, mineral fuels, chemicals, metals and other manufactures.¹⁵²

Goods destined for New Zealand (and Australia under CER), especially materials and machinery required by local manufacturers and farmers, generally enter duty-free. The New Zealand Ministry of Commerce grants concessions for goods not available from New Zealand manufacturers. Multi-stage tariff reduction programs have cut most industrial and agricultural tariffs to the 0-14% range. Most passenger vehicles, almost all computer software and hardware can be imported tariff-free. In 2000, duties were frozen at their existing levels for five years. but recently-announced, resumed unilateral tariff reductions will lead to very few remaining tariffs against any imports by 2010. Presently, most tariffs have already been eliminated or reduced to low levels; the only remaining high tariffs are in footwear, clothing and textiles.¹⁵³

Trade in services is an important part of New Zealand’s bilateral economic relationships. New Zealand’s total trade in services equaled approximately one-third of merchandise trade in 2001¹⁵⁴. Services exports were valued at NZ\$10.2 billion in 2001, comprising 25 percent of the value of total exports. Services include selling New Zealand expertise in education, engineering, architecture, banking, postal systems, environmental management and telecommunications among others.

Table 14 provides a snapshot of New Zealand’s merchandise trade with Canada, the US and Australia, as well as FDI activity between the same countries. The strong positions of both the US and Australia in New Zealand’s trade is clearly shown, while Australia’s special CER relationship with New Zealand has facilitated its dominating FDI activity.

¹⁵⁰ *Inside US Trade*, ‘Officials refuse to rule out New Zealand FTA before house panel’, June 27, 2003

¹⁵¹ Australian Dept of Foreign Affairs and Trade, New Zealand Country Fact Sheet

¹⁵² New Zealand External Trade Statistics, June 2003

¹⁵³ US Dept of Commerce, Country Commercial Guides, New Zealand, FY 2004

¹⁵⁴ New Zealand External Trade Statistics, June 2003

Table 14

| New Zealand Merchandise Trade & Investment | | | | | |
|--|-------------|-------------|-------------|-------------|----------------|
| Millions of NZ \$ | | | | | |
| Years Ending June | | | | | |
| Country | 1999 | 2000 | 2001 | 2002 | 2003(P) |
| Exports to | | | | | |
| Canada | 284 | 303 | 574 | 665 | 591 |
| Australia | 4,520 | 5,170 | 5,607 | 5,686 | 5,563 |
| US | 2,875 | 3,658 | 4,515 | 4,794 | 4,223 |
| Imports from | | | | | |
| Canada | 363 | 461 | 448 | 453 | 382 |
| Australia | 5,367 | 6,843 | 7,010 | 7,188 | 7,267 |
| US | 4,282 | 5,127 | 5,297 | 4,776 | 4,068 |
| Source: Statistics New Zealand, Overseas Trade | | | | | |
| Foreign Direct Investment, New Zealand, 1998 - 2002 | | | | | |
| millions of NZ \$ | | | | | |
| FDI out to | 1998 | 1999 | 2000 | 2001 | 2002 |
| Canada | -638 | 320 | -182 | -3295 | -1172 |
| Australia | 1105 | 227 | 906 | -194 | 1180 |
| US | 62 | 138 | 107 | 862 | -762 |
| FDI in from | | | | | |
| Canada | 1600 | 968 | 995 | - | 538 |
| Australia | 19626 | 23074 | 24571 | 17775 | 17599 |
| US | 15809 | 12452 | 11601 | 7238 | 6061 |
| Source: UNCTAD Foreign Investment Database | | | | | |

Historically, and in 2002, Australia was and continues to be the largest source of FDI for New Zealand. In 2002, the United Kingdom is second with NZ\$6.6 billion, followed closely by the US at NZ\$6.0 billion, the Netherlands (NZ\$ 5.9 billion), Singapore (NZ\$2.7 billion), Other EU (NZ\$1.2 billion) and Japan at NZ\$1.0 billion. Canada ranks 10th overall in 2002 as a source of FDI for New Zealand with NZ\$ 538 million¹⁵⁵.

Many of New Zealand's outbound FDI is comprised of large foreign affiliates of New Zealand MNEs, located in Australia, as well as the United States. Inbound FDI destined for New Zealand are large affiliates of foreign MNEs, in addition to the United Kingdom and Japan. The largest share of FDI flows are with developed countries, mainly Australia and Japan. FDI with developing countries has been of minor importance recently, mainly disinvestments in and from Hong Kong (China)¹⁵⁶.

Over half of Australia's total investment in New Zealand is FDI, reflecting the high level of economic integration. Significant new commercial investment from Australia in New Zealand's transport, aviation and banking sectors is currently under active consideration¹⁵⁷.

¹⁵⁵ UNCTAD, World Investment Database, New Zealand, Full Profile, January 2003

¹⁵⁶ UNCTAD Foreign Investment Database, 'New Zealand'

¹⁵⁷ Elizabeth Light, *NZ Business*, 'The big picture', V16, #11, Dec 2002/Jan 2003

6.2. New Zealand and Australia

The 1983 CER has enabled the trans-Tasman Sea trade relationship between Australia and New Zealand to become a free trade area. Total bilateral trade equaled A\$16.4 billion in 2002 (including A\$3.6 billion in services). New Zealand is Australia's fifth-largest export market receiving 7 percent (A\$7.9 billion) of Australian goods, including petroleum and petroleum products (A\$784 million), road vehicles (A\$664 million), office machines and equipment (A\$503 million), electrical machinery and appliances (A\$351 million) and paper and paperboard (A\$323 million). New Zealand exported A\$4.8 billion worth of goods to Australia, or supplied 4 percent of Australia's total imports in 2002. New Zealand sent crude petroleum (A\$322 million), electrical machinery and appliances (A\$290 million), paper and paperboard (A\$263 million), wood (simply worked) (A\$247 million) and non-monetary gold (A\$204 million) to Australia that year.¹⁵⁸

Table 15 provides New Zealand's exports to Australia while Table 16 provides New Zealand's imports from Australia, all by HS4 product levels.

Table 15.

| Bilateral Trade between Australia and New Zealand | | | | | |
|--|------------------------------|------------------|------------------|------------------|-----------------|
| New Zealand Exports to Australia (NZ\$000 FOB) | | | | | |
| Code | Description | 2000 | 2001 | 2002 (P) | % Change |
| 2709 | Crude oil | 457,816 | 471,707 | 344,142 | -27 |
| 9809 | Confidential | 0 | 2,924 | 257,053 | 8691 |
| 4407 | Timber | 271,229 | 196,705 | 247,351 | 26 |
| 7108 | Gold | 225,961 | 227,365 | 239,095 | 5 |
| 0406 | Cheese | 125,126 | 170,248 | 157,103 | -8 |
| 8418 | Refrigerators etc | 85,733 | 94,830 | 119,039 | 26 |
| 8802 | Aircraft | 5,080 | 25,241 | 114,883 | 355 |
| 4703 | Chemical wood pulp | 166,713 | 123,473 | 106,536 | -14 |
| 0304 | Fish filets | 76,168 | 93,206 | 89,483 | -4 |
| 0101 | Live horses | 126,323 | 93,794 | 87,210 | -7 |
| 5703 | Carpets | 70,686 | 64,437 | 82,062 | 27 |
| 3923 | Plastic articles for packing | 70,265 | 70,443 | 78,464 | 11 |
| 3808 | Insecticides etc | 117,019 | 117,323 | 75,324 | -36 |
| 5106 | Yarn of wool | 59,797 | 50,157 | 72,985 | 46 |
| 3402 | Cleaning fluids | 58,296 | 82,448 | 71,812 | -13 |
| 4818 | Paper towels etc | 45,522 | 36,404 | 63,953 | 76 |
| 5101 | Wool | 51,294 | 48,743 | 63,324 | 30 |
| 7604 | Aluminium; bars | 68,468 | 52,139 | 60,833 | 17 |
| 2106 | Food preparations | 44,160 | 40,977 | 57,806 | 41 |
| 4011 | New tyres | 50,582 | 48,223 | 57,685 | 20 |
| Top 20 Sub Total | | 2,176,238 | 2,110,787 | 2,446,143 | 16 |
| NZ's Total Exports to Australia | | 5,960,379 | 6,180,921 | 6,216,753 | 1 |
| Top 20 as % of Total Exports to Australia | | 37 | 34 | 39 | |

SOURCE: Statistics New Zealand, Overseas Trade
All Exports include re-exports

¹⁵⁸ Australian Dept of Foreign Affairs and Trade, New Zealand Country Fact Sheet

Table 16

| New Zealand Imports from Australia (NZ\$000 CIF) | | | | | |
|---|-------------------------------|------------------|------------------|------------------|-----------------|
| Code | Description | 2000 | 2001 | 2002 (P) | % Change |
| 2710 | Petroleum oils | 705,007 | 671,424 | 666,248 | -1 |
| 8703 | Cars | 409,327 | 403,094 | 510,970 | 27 |
| 2818 | Aluminium oxide | 291,955 | 295,785 | 271,282 | -8 |
| 2709 | Crude oil | 218,110 | 265,746 | 249,974 | -6 |
| 3004 | Medicaments | 217,092 | 201,457 | 179,617 | -11 |
| 2204 | Wine | 91,594 | 103,723 | 115,068 | 11 |
| 1001 | Wheat | 52,208 | 79,024 | 107,387 | 36 |
| 8704 | Trucks and vans | 53,287 | 75,434 | 101,320 | 34 |
| 1701 | Sugar | 97,641 | 105,231 | 87,498 | -17 |
| 4818 | Paper towels etc | 94,927 | 86,823 | 86,397 | 0 |
| 8524 | Records, tapes | 77,985 | 82,162 | 85,863 | 5 |
| 1905 | Bread etc | 81,674 | 82,331 | 82,957 | 1 |
| 4805 | Uncoated paper and paperboard | 58,694 | 68,862 | 82,824 | 20 |
| 8471 | Computers etc | 55,702 | 41,007 | 81,376 | 98 |
| 2106 | Food preparations | 69,636 | 64,620 | 77,101 | 19 |
| 4902 | Newspapers and periodicals | 63,982 | 62,593 | 74,206 | 19 |
| 7210 | Iron or non-alloy steel | 56,281 | 67,799 | 66,785 | -1 |
| 7606 | Aluminium; plates, sheets | 44,617 | 44,981 | 63,668 | 42 |
| 9504 | Games | 48,829 | 40,011 | 62,404 | 56 |
| 1806 | Chocolate etc | 34,949 | 45,368 | 61,985 | 37 |
| Top 20 Sub Total | | 2,823,497 | 2,887,475 | 3,114,930 | 8 |
| NZ's Total Imports from Australia | | 6,803,842 | 6,938,659 | 7,347,382 | 6 |
| Top 20 as % of Total Imports from Australia | | 41 | 42 | 42 | |

SOURCE: Statistics New Zealand, Overseas Trade
All Exports include re-exports

In 1988, the amendment of the CER to include the Services Protocol deepened the CER Agreement, and provides for free trade in services based on national treatment, focusing on the harmonisation of non-tariff measures such as customs issues, standards and business law. The Protocol covers all services traded between the two countries, except those inscribed by each government on separate "negative lists." Over time, substantial reductions on the negative lists means that New Zealand now has only excluded air services and coastal shipping from free trade and Australia, air services, broadcasting and television, third party insurance, postal services and coastal shipping.¹⁵⁹ New services are automatically covered by the free trade provisions.

Table 17 compares Australia's services trade with New Zealand, within the context of the AUSFTA and Australia's services trade with the US and Canada. New Zealand is a net importer of services from Australia as is Canada, while the US is a net exporter of services to Australia. Given the open nature of the services industry between New Zealand and Australia, New Zealand has been a net exporter of skilled labor to Australia.

¹⁵⁹New Zealand Ministry of Foreign Affairs and Trade, Australia Country Report, March 2003 and NZ MAF, Bergsten Report, 'The Case for a Model Free Trade Agreement between the United States and New Zealand'

Table 17

Australia's Trade in Services by Category and Partner Country, 2002
millions of A\$

| Country | Trade balance | EXPORTS | | | | IMPORTS | | | |
|-------------|---------------|---------------|-----------|--------|-------|---------------|-----------|--------|-------|
| | | Total exports | Transport | Travel | Other | Total imports | Transport | Travel | Other |
| New Zealand | 505 | 2,167 | 536 | 1,194 | 437 | 1,662 | 484 | 868 | 310 |
| Canada | 4 | 407 | 52 | 310 | 45 | 403 | 75 | 263 | 66 |
| US | -1139 | 4,774 | 754 | 1,371 | 2,649 | 5,913 | 628 | 1,412 | 3,873 |

Source: International Trade in Goods and Services, Australia 2003, International Accounts and Trade, Feature Article - International Trade in Services by Partner Country, 2002. Australian Bureau of Statistics

6.3. New Zealand and the US

The US is a robust and growing export market for New Zealand, though the trade balance remains significantly in the US' favor. The US is New Zealand's second largest export destination, behind Australia, and third largest source of imports, behind Australia and the EU. In the year to June 2002, New Zealand's total trade with the US was NZ\$10.8 billion or 16.8 percent of total trade. Frozen beef was the dominant New Zealand export to the US at NZ\$989 million or 20 percent of total exports. Beef together with sheep meat accounted for one-quarter of total exports to the US (26%). The remainder of New Zealand's export profile to the US is relatively diverse, with products ranging from timber to wine and dishwashers. New Zealand imported NZ\$4.8 billion in merchandise goods from the US, down 9.6 percent from the previous year. Aircraft topped the list of imports. Machinery and computers are other significant imports¹⁶⁰.

Since 1998 the US has been the third largest international investor in New Zealand and holds the third largest stock of New Zealand's total overseas investment. The stock of US FDI in New Zealand in 2002 was over NZ\$6.0 billion. The proportion of FDI originating in the US has decreased over the last five years, from 25 percent in 1998 to 13 percent of total FDI in New Zealand in the year to March 2002. US corporate investment in sectors including forestry, aviation, rail, energy and food processing has given several US firms a direct stake in New Zealand, and contributed to closer business linkages¹⁶¹.

Table 18 provides the most important US exports to New Zealand as well as a comparison of applicable duties for that product chapter for both Canada and the US. Given that the US exports to New Zealand under MFN status, its products can face duties that Canada will not due to Commonwealth Preferences (as will be discussed following). Table 18 illustrates clearly that Canada enjoys competitive advantages over the US in duty-free treatment for mainly machinery, manufactures and vehicles.

¹⁶⁰ New Zealand Ministry of Foreign Affairs and Trade, US Factsheet

¹⁶¹ New Zealand Ministry of Foreign Affairs and Trade, US Factsheet

Table 18

Most important US Exports to New Zealand, HS4 Levels, %, 1998 - 2002

| | 1998 | 1999 | 2000 | 2001 | 2002 | Avg Cdn Duty | Avg US Duty |
|--|---------|---------|---------|---------|---------|--------------|-------------|
| 8802 - HELICOPTERS, AIRPLANES AND SPACECRAFT | 14.77% | 16.34% | 10.39% | 25.72% | 9.22% | free | free |
| 8411 - TURBO-JETS, TURBO-PROPELLERS AND OTHER GAS TURBINES | 9.02% | 7.91% | 8.39% | 5.38% | 8.48% | free | free |
| 8803 - PARTS OF HELICOPTERS, AIRPLANES, BALLOONS, DIRIGIBLES AND SPACECRAFT | 4.12% | 5.43% | 5.61% | 6.47% | 7.92% | free | free |
| 8471 - COMPUTERS AND COMPUTER PERIPHERALS | 3.82% | 3.77% | 3.15% | 3.10% | 3.38% | free | free |
| 8703 - MOTOR VEHICLES FOR PASSENGER TRANSPORT (OTHER THAN BUSES/PUBLIC TRANSPORT) | 0.75% | 0.97% | 0.85% | 1.48% | 2.69% | free | 15% |
| 2304 - SOYA-BEAN OIL-CAKE AND OTHER SOLID RESIDUES | 0.60% | 0.54% | 0.59% | 0.71% | 1.53% | free | free |
| 8525 - TRANSMISSION APPARATUS FOR TV/RADIO BROADCASTING | 1.72% | 1.66% | 5.33% | 2.30% | 1.49% | free | 5% |
| 8473 - PARTS AND ACCESSORIES FOR COMPUTERS AND OTHER OFFICE MACHINERY | 1.80% | 1.88% | 2.88% | 1.29% | 1.46% | free | free |
| 9018 - INSTRUMENTS AND APPLIANCES USED IN MEDICAL, SURGICAL OR VETERINARY SCIENCES | 1.09% | 1.43% | 1.38% | 1.34% | 1.38% | free | free |
| 2713 - PETROLEUM COKE; RESIDUES OF PETROLEUM OILS OR OF OILS OBTAINED FROM BITUMINOUS MINERALS | 1.02% | 1.19% | 0.99% | 1.01% | 1.36% | free | free |
| 3100 - FERTILIZERS (CODE VALID ONLY FOR U.S. EXPORTS) | 0.10% | 0.56% | 0.62% | 1.04% | 1.14% | free | free |
| 8517 - ELECTRICAL APPARATUS FOR TELEPHONIC LINE USE (INCL. TELEPHONES AND MODEMS) | 1.39% | 1.22% | 2.82% | 1.18% | 1.11% | free | 5% |
| 8701 - TRACTORS | 0.30% | 0.45% | 0.53% | 0.51% | 1.10% | free | 0-5% |
| 8711 - MOTORCYCLES AND MOPEDS | 0.63% | 0.81% | 0.85% | 0.59% | 1.07% | free | free |
| 3926 - OTHER ARTICLES NES OF PLASTICS | 0.24% | 0.32% | 0.22% | 0.29% | 1.04% | 0-2.5% | 5-15% |
| 8704 - TRUCKS AND OTHER VEHICLES FOR THE TRANSPORT OF GOODS | 0.55% | 0.24% | 0.48% | 0.18% | 0.87% | free | 5-15% |
| 8407 - SPARK-IGNITION RECIPROCATING OR ROTARY INTERNAL COMBUSTION PISTON ENGINES | 0.82% | 0.74% | 1.23% | 0.87% | 0.80% | free | 5-10% |
| 3822 - COMPOSITE DIAGNOSTIC OR LABORATORY REAGENTS, NES (EXCL THOSE FROM BLOOD, ANTISERA AND MICROBES) | 0.44% | 0.46% | 0.46% | 0.60% | 0.78% | free | 0-5% |
| 3904 - POLYMERS OF VINYL CHLORIDE OR OTHER HALOGENATED OLEFINS IN PRIMARY FORMS | 0.37% | 0.32% | 0.37% | 0.65% | 0.76% | 0-5%* | 0-5%* |
| 2933 - HETEROCYCLIC COMPOUNDS WITH NITROGEN HETERO-ATOM(S) ONLY; NUCLEIC ACIDS AND THEIR SALTS | 1.95% | 1.54% | 1.73% | 1.07% | 0.73% | free | 5% |
| 2309 - PET FOOD AND ANIMAL FEED PREPARATIONS | 0.45% | 0.51% | 0.53% | 0.66% | 0.65% | free | 5% |
| 8424 - FIRE EXTINGUISHERS; MECHANICAL APPLIANCES FOR PROJECTING, DISPERSING OR SPRAYING LIQUIDS OR POWDERS | 0.27% | 0.28% | 0.43% | 0.43% | 0.63% | 0-5%^ | 0-5%^ |
| 8528 - TELEVISION RECEIVERS; VIDEO MONITORS AND PROJECTORS | 0.09% | 0.08% | 0.27% | 0.18% | 0.61% | free | free |
| 3901 - POLYMERS OF ETHYLENE IN PRIMARY FORMS | 0.85% | 0.73% | 0.75% | 0.55% | 0.61% | 0-5%* | 0-5%* |
| 8433 - HARVESTING, THRESHING AND OTHER AGRICULTURAL AND MOWING MACHINERY | 0.37% | 0.53% | 0.57% | 0.41% | 0.61% | 0-5%~ | 0-5%~ |
| SUB-TOTAL | 47.53% | 49.91% | 51.42% | 57.99% | 51.41% | | |
| OTHERS | 52.47% | 50.09% | 48.58% | 42.01% | 48.59% | | |
| TOTAL (ALL PRODUCTS) | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | | |

* denotes both Canada and US products in the category face exactly the same tariffs in the same subcategories

^ denotes that Canada and US products face different tariffs in different subcategories

~ denotes that Canada and US products face different tariffs in some subcategories, and the same tariffs in other subcategories

Source: Industry Canada, Strategis database and APEC Tariff Database

Table 19

Most important US Imports from New Zealand, HS4 Level, %, 1998 - 2002

| | 1998 | 1999 | 2000 | 2001 | 2002 | Avg Duty New Zealand | Avg Duty Canada |
|--|---------|---------|---------|---------|---------|--------------------------|-----------------|
| 0202 - MEAT OF BOVINE ANIMALS - FROZEN | 19.79% | 18.58% | 20.85% | 20.19% | 19.53% | 4 - 28% | free* |
| 4407 - LUMBER (THICKNESS >6MM) | 4.17% | 5.51% | 4.37% | 6.10% | 7.21% | free | free* |
| 3501 - CASEIN; CASEIN GLUES; CASEINATES AND OTHER CASEIN DERIVATIVES | 11.40% | 8.26% | 8.37% | 9.43% | 5.69% | 0 - 6.5% | free |
| 0204 - MEAT OF LAMB, SHEEP AND GOATS - FRESH, CHILLED OR FROZEN | 4.48% | 4.56% | 4.02% | 4.13% | 4.85% | 0.8>/kg - 3>/kg | free |
| 0406 - CHEESE AND CURD* | 4.68% | 4.86% | 3.26% | 4.29% | 3.98% | 8.7 - 20% | free |
| 0304 - FISH FILLETS AND OTHER FISH MEAT - FRESH, CHILLED OR FROZEN | 5.50% | 6.17% | 3.64% | 2.83% | 3.49% | 0 - 6% | free |
| 0404 - WHEY AND PRODUCTS CONSISTING OF NATURAL MILK CONSTITUENTS* | 2.39% | 2.71% | 3.27% | 3.47% | 3.31% | 9 - 14.5% | free |
| 8708 - MOTOR VEHICLE PARTS (EXCL. BODY, CHASSIS AND ENGINES) | 1.39% | 1.52% | 2.68% | 2.10% | 2.56% | 0 - 2.6% | free |
| 2103 - SAUCES, MIXED CONDIMENTS AND SEASONINGS, MUSTARD FLOUR AND MEAL, AND PREPARED MUSTARD* | -- | 0.43% | 0.96% | 1.86% | 1.90% | 0 - 12.3% | free |
| 0808 - APPLES, PEARS AND QUINCES - FRESH | 1.90% | 3.21% | 2.39% | 1.64% | 1.89% | 0 - 0.6%* | free |
| 4409 - WOOD (LUMBER) CONTINUOUSLY SHAPED | 1.66% | 2.19% | 2.01% | 1.77% | 1.89% | 0 - 5.4% | free |
| 0307 - MOLLUSCS - LIVE, FRESH, CHILLED, FROZEN, DRIED, SALTED OR IN BRINE | 1.51% | 1.53% | 1.72% | 1.41% | 1.75% | 0 - 5% | free |
| 9019 - MECHANO-THERAPY APPARATUS, MASSAGE APPLIANCES; TESTING APPARATUS; MASKS AND BREATHING APPARATUS | 0.80% | 1.01% | 1.06% | 1.22% | 1.51% | 0.7 - 1.6% | free |
| 2204 - GRAPE WINES (NON AROMATIC) AND GRAPE MUST* | 0.48% | 0.72% | 0.84% | 0.95% | 1.34% | 6.3>/L - 23.7>/L | free |
| 3502 - ALBUMIN AND DERIVATIVES* | 1.56% | 1.23% | 1.26% | 1.22% | 1.29% | 0 - 51.6>/kg | free |
| 2106 - PROTEIN CONCENTRATES, TEXTURED PROTEIN SUBSTANCES AND OTHER FOOD PREPARATIONS NES* | 0.03% | 0.11% | 0.44% | 0.78% | 1.27% | 2.9>/kg - 91.37>/kg + 9% | free |
| 0405 - BUTTER, DAIRY SPREADS AND OTHER FATS AND OILS DERIVED FROM MILK* | 2.66% | 1.23% | 0.76% | 1.71% | 1.08% | 12.3>/kg - 74.5>/kg + 9% | free |
| 8202 - HAND SAWS AND SAW BLADES | 0.88% | 0.77% | 0.78% | 0.82% | 0.96% | 0 - 7.2% | free |
| 8903 - MOTORBOATS, SAILBOATS, CANOES, ROWBOATS, INFLATABLES AND OTHER PLEASURE CRAFT* | 0.13% | 0.47% | 0.79% | 0.49% | 0.92% | 0 - 3% | free |
| 8422 - DISHWASHING MACHINES; BOTTLE PROCESSING MACHINERY; MACHINERY FOR BEVERAGE AERATION | 0.32% | 0.85% | 0.65% | 0.99% | 0.92% | 0.7 - 2.6% | free |
| 0201 - MEAT OF BOVINE ANIMALS -- FRESH OR CHILLED* | 0.22% | 0.55% | 0.57% | 0.81% | 0.88% | 4 - 28% | free* |
| 4411 - FIBREBOARD | 0.04% | 0.13% | 0.30% | 0.59% | 0.86% | 0 - 6% | free |
| 0511 - BOVINE SEMEN AND OTHER ANIMAL PRODUCTS NES | 0.73% | 0.78% | 0.95% | 0.72% | 0.84% | 0 - 1.6% | free |
| 7601 - UNWROUGHT ALUMINUM | 0.91% | 2.03% | -- | 0.40% | 0.78% | 0 - 2.6% | free |
| 4303 - ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, AND OTHER ARTICLES OF FURSKIN | 0.18% | 0.26% | 0.46% | 0.59% | 0.62% | 0.7 - 4.4%* | free |
| SUB-TOTAL | 67.82% | 69.65% | 66.40% | 70.51% | 71.31% | | |
| OTHERS | 32.18% | 30.35% | 33.60% | 29.49% | 28.69% | | |
| TOTAL (ALL PRODUCTS) | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | | |

* indicates presence of significant non-tariff barriers for the chapter or subcategories within the chapter

Source: Industry Canada, Strategis database and APEC Tariff Database

In contrast, Table 19 provides the US's most important imports from New Zealand and the respective duties paid by New Zealand and Canada. Canada's special relationship with the US is clearly evident in duty-free treatment of all goods listed, however, NTB's remain a large barrier in specific products for Canada as well as New Zealand. These particular US NTB's were discussed earlier under Section 5.

6.4. New Zealand and Canada

Canada is New Zealand's eleventh largest export destination and fourteenth largest source of imports. In 2001, New Zealand's total trade with Canada was over NZ\$1 billion. The proportion of trade with Canada grew half a percent to 2 percent in 2001, after remaining consistently near 1.5 percent of total trade between 1997 and 2000. Approximately 75 percent of New Zealand's exports to Canada are agri-food products, with meat and dairy products strongly featured. In turn, NZ imports from Canada focus on potassic fertilizer and pork meat, agri-food products, metals and machinery. Canada was the source of 1.5 percent of New Zealand's imports in 2001¹⁶².

Table 20 illustrates Canada's most important exports to New Zealand, by HS4 levels and compares the respective tariff rates faced by Canada and US to New Zealand. The competitive advantages conferred to Canadian exports through Commonwealth Preferences are also illustrated. Although relatively small (averaging 5%), in terms of overall duty paid, the Canadian preference can become a significant advantage, particularly in highly competitive industries. A minor tariff reduction can accrue significant cost savings to an exporter, making their product more competitive and affordable in the destination market.

¹⁶² Statistics New Zealand

Table 20

Most important Canadian Exports to New Zealand, HS4 Levels, %, 1998 - 2002

| | 1998 | 1999 | 2000 | 2001 | 2002 | Avg. Cdn Duty | Avg. US Duty |
|--|---------|---------|---------|---------|---------|---------------|--------------|
| 3104 - MINERAL OR CHEMICAL FERTILIZERS, POTASSIC | 12.83% | 12.07% | 16.78% | 16.60% | 18.58% | free | free |
| 0203 - MEAT OF SWINE - FRESH, CHILLED OR FROZEN | 7.66% | 8.29% | 11.81% | 9.79% | 8.34% | 4% | 5% |
| 4407 - LUMBER (THICKNESS >6MM) | 7.21% | 6.97% | 9.91% | 5.14% | 7.41% | 4% | 5% |
| 8805 - FLIGHT SIMULATORS, AIRCRAFT LAUNCHING GEAR, DECK ARRESTORS AND SIMILAR GEAR | -- | 0.38% | 0.02% | 7.14% | 6.65% | free | free |
| 8411 - TURBO-JETS, TURBO-PROPELLERS AND OTHER GAS TURBINES | 0.33% | 0.91% | 0.83% | 0.71% | 3.16% | free | free |
| 3102 - MINERAL OR CHEMICAL FERTILIZERS, NITROGENOUS | 0.73% | 3.60% | 3.57% | 2.99% | 2.61% | free | free |
| 1001 - WHEAT | 8.23% | 7.60% | 3.52% | 5.25% | 2.47% | free | free |
| 8517 - ELECTRICAL APPARATUS FOR TELEPHONIC LINE USE (INCL. TELEPHONES AND MODEMS) | 1.74% | 4.91% | 3.47% | 2.37% | 2.22% | free | 5% |
| 1604 - FISH, CAVIAR AND CAVIAR SUBSTITUTES - PREPARED OR PRESERVED | 3.24% | 2.37% | 3.08% | 2.73% | 2.12% | 0-4% | 0-5% |
| 8903 - MOTORBOATS, SAILBOATS, CANOES, ROWBOATS, INFLATABLES AND OTHER PLEASURE CRAFT | 0.76% | 0.91% | 1.00% | 3.76% | 2.05% | free | 5% |
| 8803 - PARTS OF HELICOPTERS, AIRPLANES, BALLOONS, DIRIGIBLES AND SPACECRAFT | 0.52% | 0.35% | 0.77% | 0.41% | 2.02% | free | free |
| 3004 - MEDICAMENTS - PUT UP IN MEASURED DOSES OR PACKED FOR RETAIL USE | 1.33% | 1.49% | 0.72% | 0.91% | 1.47% | free | free |
| 8436 - OTHER AGRICULTURAL, HORTICULTURAL, FORESTRY, POULTRY-KEEPING OR BEE-KEEPING MACHINERY | 0.06% | 0.32% | 1.11% | 0.23% | 1.46% | free | free |
| 2503 - SULFUR | 1.64% | 3.56% | 4.49% | 2.54% | 1.45% | free | free |
| 8428 - OTHER LIFTING, HANDLING, LOADING OR UNLOADING MACHINERY | 0.12% | 0.08% | 0.25% | 0.38% | 1.36% | free | 5% |
| 3920 - OTHER FILM, PLATES, SHEETS, FOIL AND STRIP OF PLASTICS - NON-CELLULAR | 0.61% | 0.62% | 0.69% | 0.62% | 1.16% | free | 5% |
| 2103 - SAUCES, MIXED CONDIMENTS AND SEASONINGS, MUSTARD FLOUR AND MEAL, AND PREPARED MUSTARD | 0.33% | 0.15% | 0.45% | 0.79% | 1.14% | free | 5% |
| 7605 - ALUMINUM WIRE | 1.67% | 1.35% | 1.43% | 1.24% | 1.13% | free | 5% |
| 0713 - LEGUMINOUS VEGETABLES - DRIED AND SHELLLED | 0.01% | 0.02% | 0.58% | 0.35% | 1.04% | free | free |
| 8531 - ELECTRIC SOUND OR VISUAL SIGNALLING APPARATUS | 0.95% | 0.79% | 1.09% | 0.56% | 0.89% | 0-3% | 5% |
| 8802 - HELICOPTERS, AIRPLANES AND SPACECRAFT | 0.02% | 1.94% | -- | -- | 0.89% | free | free |
| 8479 - OTHER MACHINERY NES | 0.60% | 0.34% | 0.38% | 0.60% | 0.88% | free | 5% |
| 8431 - PARTS FOR MACHINERY (HS 8425-8430) | 0.23% | 0.34% | 0.36% | 0.92% | 0.80% | free | 5% |
| 8703 - MOTOR VEHICLES FOR PASSENGER TRANSPORT (OTHER THAN BUSES/PUBLIC TRANSPORT) | 0.11% | 0.04% | 0.01% | 0.16% | 0.66% | free | 15% |
| 8708 - MOTOR VEHICLE PARTS (EXCL. BODY, CHASSIS AND ENGINES) | 0.19% | 0.40% | 0.49% | 0.89% | 0.63% | 0-8.33% | 5-15% |
| SUB-TOTAL | 51.14% | 59.79% | 66.80% | 67.09% | 72.57% | | |
| OTHERS | 48.86% | 40.21% | 33.20% | 32.91% | 27.43% | | |
| TOTAL (ALL PRODUCTS) | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | | |

6.5 New Zealand, AUSFTA and Canada

New Zealand's preliminary assessment of the impact of AUSFTA is that New Zealand's relative attractiveness as a business location will suffer potential negative effects. New Zealand industries and processes most at risk from an investment perspective, including greenfield inward FDI that is diverted elsewhere, expansions of existing New Zealand-based processing that are put on hold, or moved to Australia and closure of existing facilities that might otherwise have continued operating in New Zealand¹⁶³.

Investment flows are indicative of larger issues in shifting business activity involving skilled people movements. Over many periods in the past, New Zealand has been a net exporter of skilled workers and there is some evidence that Australia has recently become a net exporter of skilled workers¹⁶⁴. Both investment flows and people movements are tied to FDI associated with multinational corporations as these firms with valuable intellectual property, explore niche markets in other countries by shifting investment funds and employees with expertise as part of a package. For this reason, FTAs tend to encompass agreements on the movement of business employees ('natural persons') as well as the movement of financial capital.

The potential risk for New Zealand is that a successfully negotiated, comprehensive AUSFTA has the potential to divert business activity that might have otherwise been located in New Zealand, to Australia or to the US. This diversion could easily be Australian or New Zealand investment or it could be, for example, Japanese FDI diverted from New Zealand to Australia in the wake of an AUSFTA. Another factor to bear in mind is that Australia appears to be more prominent in global investment circles than New Zealand is. The AUSFTA will only increase Australia's presence on the global stage while New Zealand's relative presence declines.

To the extent that any such New Zealand products can be incorporated into AUSFTA-qualifying products shipped from Australia, as discussed previously, Australia's exports of TCF, leather, energy, chemicals, aluminum, machinery, beef, dairy, processed foods, and pork could potentially affect Canadian trade with the US once the AUSFTA is completed. New Zealand is a major trading partner of Australia due to the CER. As a result, Australia's endowments and competitive advantages are complemented by New Zealand's.

As New Zealand exports oil, gold, cheese, textiles (carpets, leather), aluminum and processed foods to Australia, these products add to Australia's potential AUSFTA exports to the US. These additional exports could pose challenges to Canadian exports of similar products to the US market. However, the nature of the competitive challenge will remain the same as discussed in the previous section of this paper. Again, the AUSFTA's mechanism for the prevention of tariff circumvention through transshipment will have an important bearing on changing trade patterns

¹⁶³ NZ Institute of Economic Research, 'A US-Australia Free Trade Agreement: A qualitative assessment of the business impacts on New Zealand', Report to the new Zealand Ministry of Foreign Affairs and Trade and Treasury, October 2002

¹⁶⁴ NZ Institute of Economic Research, 'A US-Australia Free Trade Agreement: A qualitative assessment of the business impacts on New Zealand', Report to the new Zealand Ministry of Foreign Affairs and Trade and Treasury, October 2002

Transshipment will be determined by the rules of origin under the CER which do not permit products to enter Australia duty free from New Zealand unless the product is of at least 50 percent New Zealand origins, and the last manufacturing process was carried out in New Zealand. Therefore, a Canadian product imported into New Zealand, if re-exported to Australia, would face the normal tariff duty for a Canadian export to Australia. The reverse also holds true.¹⁶⁵

Therefore, New Zealand's net potential impact on Canadian exports to the US is that of an incremental value in magnitude. New Zealand's CER with Australia endows Australia with additional products and goods for which it could potentially export duty-free to the US via the AUSFTA. These additional goods and products may enable Australia to challenge Canada in exports it otherwise could not, or exacerbates the extent and degree of an existing challenge.

For instance, the fact that New Zealand remains free of BSE and foot-and-mouth at a time when these diseases are occurring in pockets around the world¹⁶⁶ acts as an additional desirable characteristic that Australia can use to market its goods in the US.

6.6 Possible NZUSFTA – Impact on Canada

New Zealand has been actively lobbying for an FTA with the US as discussed in Section 6.0. Part of the rationale for an independent NZUSFTA is that an effective AUSFTA has been modeled to have a negative effect on the economic welfare of New Zealand, and free trade between the US and New Zealand will have a negative effect on the economic welfare of Australia. By contrast, there will be a positive impact on both Australia and New Zealand if the United States simultaneously establishes free trade with both¹⁶⁷.

New Zealand seeks greater access to the US market for its agri-food products, particularly butter and cheese, bovine meat, and fresh fruits (apples) and processed food products.

New Zealand's relatively small economic size compared to the US dictates that the economic impact of an NZUSFTA would be quite modest for the US and considerably larger for New Zealand. However, US merchandise exports to New Zealand would rise by about 25 percent and virtually every US sector would benefit while adjustment costs for the US would be minimal: production in the most impacted sector, dairy products, would decline by only 0.5 percent and any adverse effect on jobs would be very small¹⁶⁸.

The US generally gains much more from liberalization of trade in services than from liberalization of trade in goods. It is quite likely that the same pattern will apply to an NZUSFTA. Currently, service providers from Australia and Singapore are favored in the New Zealand

¹⁶⁵ US Dept of Commerce, Country Commercial Guide, New Zealand, FY 2004

¹⁶⁶ Elizabeth Light, *NZ Business*, 'The big picture', V16, #11, Dec 2002/Jan 2003

¹⁶⁷ New Zealand Ministry of Foreign Affairs and Trade, Australia Country Report, March 2003 and NZ MAF, Bergsten Report, 'The Case for a Model Free Trade Agreement between the United States and New Zealand'

¹⁶⁸ New Zealand Ministry of Foreign Affairs and Trade, Australia Country Report, March 2003 and NZ MAF, Bergsten Report, 'The Case for a Model Free Trade Agreement between the United States and New Zealand'

market, relative to providers from other countries. This disadvantage for the US would be neutralized if the US entered into an NZUSFTA, covering services trade as well as trade in goods.¹⁶⁹

In terms of impact on Canadian exports to both the US and New Zealand markets, an NZUSFTA will erode existing Commonwealth Privileges enjoyed by Canada in its exports to New Zealand.

Table 18 shows the major US exports to New Zealand while Table 20 shows Canada's. At the HS4 level, there is some similarity between each nation's export profile to New Zealand, but not a significant amount, recalling that the HS4 level represents roughly 50 percent of total exports to New Zealand respectively.

Table 21 shows Canadian exports currently enjoying preferential CP access to New Zealand. Should the US be able to negotiate tariff concessions from New Zealand in these products, the size of the concession will determine the extent US products will be able to displace Canadian suppliers. A negotiated US tariff that equals the Canadian duty, for instance of 4% will not significantly alter competitive profiles.

Table 21

| Canadian Exports to New Zealand enjoying Commonwealth Privileges | | | |
|---|------------------------------------|----------------|----------------|
| HS Code | Description | CdnDuty | US Duty |
| 0203 | Pork | 4% | 5% |
| 4407 | Lumber >6mm | 4% | 5% |
| 8517 | Electricals related to telephones | free | 5% |
| 1604 | Fish and related product | 0-4% | 0-5% |
| 8903 | motorboats, etc | free | 5% |
| 8428 | lifting, handling machinery | free | 5% |
| 3920 | other film, plates, sheets etc | free | 5% |
| 2103 | sauces, condiments, seasoning | free | 5% |
| 7605 | aluminum wire | free | 5% |
| 8531 | electronic, sound, visual signalli | 0 - 3% | 5% |
| 8479 | Other machinery | free | 5% |
| 8431 | parts for machinery | free | 5% |
| 8703 | PMV | free | 15% |
| 8708 | PMV parts | 0 - 8.33% | 5-15% |

The Canadian exports most likely to be negatively affected by a NZUSFTA are 8517 – Electricals related to telephones and 8703 – PMV. Current important US exports to NZ include both these products, despite existing tariffs. Removal or reduction of these tariffs will add a large competitive advantage to an already strong export profile. In 8517, a 5 percent decrease in tariffs is a large cost savings in a highly competitive industry with relatively small margins. Similarly, for PMV, any reduction in the 15 percent tariff will improve US competitiveness.

¹⁶⁹ New Zealand Ministry of Foreign Affairs and Trade, Australia Country Report, March 2003 and NZ MAF, Bergsten Report, 'The Case for a Model Free Trade Agreement between the United States and New Zealand'

In general terms, the US will likely be able to negotiate concessions from New Zealand in tariffs applicable to equipment and manufactures, which comprise the bulk of US exports to New Zealand. It is interesting to note that these products are already among the most important exports from the US to New Zealand in spite of existing tariffs. Removal of these tariffs will only increase existing US competitiveness.

Additionally, there are many products that both Canada and the US enjoy tariff-free entry into the New Zealand market, yet the US has not become a competitor to Canada. Fertilizers, flight simulators, turbo jets and turbines, wheat, medications, agricultural machinery, sulfur, and leguminous vegetables, are products that Canada exports to New Zealand, without US competition, despite both nations having duty-free access. Such products comprise nearly one-half of Canada's top exports to New Zealand and it is reasonable to assume that their performance will not be affected by a NZUSFTA.

Finally, there are some Canadian products which enjoy CP access over the US that will not likely be greatly affected by any tariff concessions the US is able to negotiate with New Zealand. Aluminum, PMV parts, electronic sound/visual signaling apparatus, some sauces and condiments, film plates etc, lifting and handling machinery, boats and related and fish and related products are examples of these. The US is not a significant producer or exporter of some of these goods, or if they are, the New Zealand market has been deemed too minor for US firms to pursue. This is particularly true given that in other areas of manufacturing, US exports are significant despite existing tariff regimes. This situation may persist even through a successful conclusion of a NZUSFTA.

In terms of acting as a greater competitor to Canadian exports into the US market, New Zealand's focus on increasing agri-food exports to the US is the key issue. Table 19 provides the US's major imports from New Zealand as well as applicable tariffs, with fourteen of these being agri-food products. These exports continue despite significant trade barriers in tariffs and NTB's protecting US agri-food industries.

In competition with Canada, New Zealand exports beef, lamb, cheese, whey and milk products, sauces, albumin and derivatives, protein concentrates, and butter and dairy spreads, despite highly restrictive US trade barriers. However, similar to Australia, NTB's pose a greater challenge than tariffs in trade liberalization with the US.

For beef trade, New Zealand faces a TRQ of 213,402 metric tons per year while Canada has no quantitative quota¹⁷⁰. However, New Zealand beef poses the same challenge to Canadian beef exports as Australia given the BSE crisis and the US's subsequent ban on Canadian beef. Should New Zealand be able to renegotiate its TRQ in a NZUSFTA, the loss of Canadian market share in the US beef market will increase according to the length of the ban on Canadian beef. The longer the ban, the greater the loss of market share.

In the dairy industry, even a small amount of access to the US market will entail significant exports for New Zealand dairy producers. The US dairy industry is one of the most protected and domestic producers are loath to allow liberalization. New Zealand's TRQ for various

¹⁷⁰ US International Trade Commission, 2003 US Tariff Schedules

cheeses and cheese substitutes, is already greater than Canada's¹⁷¹ hence the NZUSFTA would have no effect on Canadian cheese exports. Products such as butter face an overall aggregate annual quota that is allocated according to the USTR, hence increased access for New Zealand exporters is reliant upon negotiations on NTB's. Other agri-food products such as whey, albumin and its derivatives, and protein concentrates, face high tariff barriers that foreseeably could be reduced in an NZUSFTA. Regardless of the specific industry, New Zealand's desire for greater access to some of the US's most protected markets and most politically sensitive ones means that any negotiations in an NZUSFTA will include significant phasing in periods and gradual reductions in barriers. Access will occur on a slow and gradual basis, even though in terms of overall GDP, the impact of increased New Zealand products to the US market will be very small.

Other New Zealand exports to the US are not competitors to Canadian products. For instance, Canada is not a major producer of apples, pears or quinces, molluscs or in fish products as Canada specializes in different species and products than New Zealand. Thus in these areas, an NZUSFTA will have no impact on Canada.

In terms of services, New Zealand is a net importer of services from Australia and the US. An NZUSFTA will likely facilitate greater US services exports to New Zealand, potentially displacing Canadian service providers if an MRA for service providers is included in the FTA. In such a case, US service providers would receive national treatment while Canadians would be disadvantaged.

Similarly for investment, bilateral investment between Canada and New Zealand has occurred historically without an FTA encompassing national treatment for investors. The effect of a possible NSUSFTA would be to increase awareness of New Zealand in the US and possible have US investment displaced from Canada to New Zealand. Alternatively, NZ FDI may flow to the US, exacerbating an existing trend, rather than occurring in Canada.

¹⁷¹ US International Trade Commission, 2003 US Tariff Schedules

7.0 OPPORTUNITIES FOR CANADA: Assisting Australia and New Zealand

How can Canada capitalize upon the AUSFTA as a third party? Are there opportunities that Canadians can take advantage of which will increase trade with the Antipodes?

Possibilities include:

- Acting in an advisory role to New Zealand or Australian firms wishing to enter the US market.
- Canada could promote itself as a suitable test market for Australian or New Zealand goods whose attractiveness/marketability in the US market is unknown or untested.
- Canadian industry sectors could provide advice on how to meet US standards, technical requirements, and qualifications.
- Canadian firms could provide sector/industry specific knowledge and information regarding the US market to counterparts in the Antipodes.
- Canadian governments and industry could work with Australia to revitalize the existing Trade and Economic Cooperation Agreement (TECA) signed in 1995. The TECA could be revamped to facilitate better trade awareness and activity between Australia and Canada. The TECA could be useful as a tool to help reduce potential AUSFTA trade diversion from vulnerable Canadian industries.
- Canadian government could negotiate a Foreign Investment Protection Agreement (FIPA) with Australia and/or New Zealand to facilitate and foster improved investment ties with Australia and New Zealand to offset potential investment diversion.

8.0 CONCLUSIONS

Overall, the impact of the AUSFTA on Canadian trade with the Antipodes is likely to be relatively small, however, for a Canadian firm that is currently exporting to Australia, the impact of the AUSFTA could be devastating when US competitors gain greater market access. The degree, severity and nature of that impact will vary across industries and firms.

For the most part, the AUSFTA does not offer many obvious opportunities for Canadian exports, and it appears that some trade diversion will occur as Australian firms take advantage of new US suppliers or opportunities to ship more products to the US. Canada's special status under the NAFTA will be somewhat eroded.

The aggregate impact of the AUSFTA on Canadian trade with the US is also minimal. With its strong ties and integration across several industries, Canada's position as the largest US trading partner is secure. The AUSFTA will provide an additional supplier of goods and services to the world's largest economy. Although both Canada and Australia are considered smaller, export oriented economies, Canada's presence in the US market is far greater than Australia's. In fact, with increased US exports to Australia, particularly in the automotive sector, Canada would actually gain some benefits, as an integral part of the industry.

Tables 22 and 23 provide the results of a Global Trade Analysis model completed by the Centre for International Economics. The simulated results for Canada appear to support the findings of this paper in that some trade diversion will occur for Canada, but is balanced by indirect opportunities afforded Canadian firms via relationships with US counterparts.

Table 22. Aggregate Effects for Third Parties of AUSFTA¹⁷²

| <i>Region</i> | <i>Real GDP</i> | <i>Terms of trade</i> | <i>Expected return to capital</i> |
|----------------|-----------------|-----------------------|-----------------------------------|
| | Per cent | Per cent | Per cent |
| Australia | 0.34 | 0.08 | 1.04 |
| United States | 0.02 | 0.02 | 0.03 |
| Canada | ns | -0.01 | -0.01 |
| Chile | ns | ns | ns |
| China | ns | -0.01 | -0.01 |
| European Union | ns | ns | ns |
| Japan | ns | -0.02 | ns |
| Korea | ns | -0.04 | -0.03 |
| Mexico | ns | 0.01 | ns |
| New Zealand | ns | ns | 0.03 |
| Other ASEAN(6) | ns | -0.01 | -0.01 |
| Rest of Asia | ns | ns | ns |
| Rest of Europe | ns | ns | ns |
| Rest of World | ns | 0.01 | 0.01 |
| Singapore | ns | -0.02 | -0.03 |
| South America | ns | 0.01 | ns |

ns: not significant. Changes could not be picked up at the second decimal place.

¹⁷² Centre for International Economics, 'Economic Impacts of An Australia-US FTA', June 2001', p. 42 – GTAP modeling results

Table 23. Trade Creation and Diversion – Value of Exports¹⁷³

| <i>From/To</i> | <i>Australia</i> | <i>United States</i> |
|----------------|------------------|----------------------|
| | US\$ million | US\$ million |
| Australia | 0 | 1 182 |
| United States | 1 854 | 0 |
| Canada | -33 | 9 |
| Chile | -1 | 1 |
| China | -104 | 24 |
| European Union | -447 | -53 |
| Japan | -297 | 117 |
| Korea | -60 | 22 |
| Mexico | -3 | -10 |
| New Zealand | -36 | -7 |
| Other ASEAN(6) | -53 | -18 |
| Rest of Asia | -56 | 21 |
| Rest of Europe | -28 | -28 |
| Rest of World | -23 | -17 |
| Singapore | -27 | 10 |
| South America | -10 | -133 |
| Total | 675 | 1 119 |

As Table 22 shows that the aggregate effects of the AUSFTA would be insignificant for Canada. However, as discussed previously, aggregate insignificance can still involve significant impacts at the sectoral, industry or firm level. Table 23 shows US\$33 million in Australian trade diversion away from Canada. Likely sources of this are the loss of US markets to Australian competitors and the loss of Australian markets to US competitors. However, the A\$9 million gain in US trade is likely created as an indirect result of increased trade between the US and Australia. Canadian integration with the US economy means that shipments from Canadian firms would increase in order to supply increased US exports, likely in the automotive sector.

For those Canadian firms facing adverse consequences of the AUSFTA, or a possible NZUSFTA, potential strategies to reduce negative impacts include:

- Partly hedge against the negative impacts of an AUSFTA by increasing their shareholdings or partnerships in US companies likely to benefit from AUSFTA. For instance in the mining industry, both Canada and US have active interests. An AUSFTA could see US operators relocate their investments and upstream processing to Australia. Canadians could take larger roles in US mining companies via shareholdings, partnerships and alliances.
- Canadian producers that remain competitive with their Australian counterparts post-AUSFTA will maintain their markets. Improved efficiency, lower costs and increased value, and innovation are means to retain competitiveness.

¹⁷³ Centre for International Economics, 'Economic Impacts of An Australia-US FTA', June 2001', p. 43 – GTAP modeling results

- Products with mature US/Australian markets may not offer sufficient incentives for US/Australian firms to consider any major relocation/investment or increased production for export, even with the reduction of major tariffs or barriers.
- Market diversification to reduce reliance on the US market

In terms of New Zealand, the impact of a possible NZUSFTA on Canadian exports will likely affect Canadian market share in the US beef industry given the current BSE crisis. New Zealand's focus on increasing agri-food exports to the US will not heavily affect Canadian exports due to the nature of US NTB's in these areas.

The Canadian exports most likely to be negatively affected by a NZUSFTA are in manufactures and PMV where reduction of tariffs will add a large competitive advantage to an already strong US export profile, present despite existing tariff barriers.

Finally, the US will continue negotiating FTA's with various countries. The implications for Canada are the same as with the AUSFTA in that some market share will be lost, but some indirect benefits gained. However, this trend will mean that Canada's exports across the world will decline, as the US is a strong competitor to Canada, and Canadian firms will rely more and more on the US market.

There is a case for Canada to remain on the US 'good trade' radar to maintain the current stake in US interests, and to ensure that stake is protected. However, there is also an important impetus for Canada to actively pursue new markets for exports of goods and services. Capitalizing on Canadian specialties and advantages is essential to competing with the US. Ambivalence towards trading partners due to complacency in the US trading relationship will damage Canadian economic growth in the long run.

The upcoming Free Trade Agreement of the Americas, extending a free trade zone over North and South America, is an opportunity for Canada to diversify. Some of Canada's major agricultural competitors (Brazil and Argentina) will be seeking preferential access to US agricultural markets, not only through the FTAA initiative, but also through a proposal for a relationship between NAFTA and Mercosur.

Adapting to these changes in the global trading arena will create challenges and opportunities for Canada, however, Canada should to continue to pursue its bi-lateral agreements and multilateral trade liberalization efforts at the WTO to ensure that international trade can expand. Canada's "special status" under NAFTA will be eroded as the US negotiates further FTA's like the current initiative with Australia, and Canada cannot be complacent simply because of the market access it currently enjoys under NAFTA.