BIRMINGHAM CITY University Centre for Brexit Studies

Centre for Brexit Studies
Case Study

Commonwealth Trade Case Studies: Australia

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Summary

- Australia is a large and sophisticated economy with low tariff and non-tariff barriers
- Its economy specialises in the extraction of natural resources and extensive agriculture
- UK net migration targets are likely to be a challenge in the event of any trade deals
- Australia imposes a luxury car tax of 33%, which is likely to be a significant barrier for West Midlands automotive exporters specialising in the production of popular luxury SUVs and their components
- Total UK-Australia trade is modest relative to the past and their economic size
- Australia's comparatively small population and distance from the UK are impediments to export growth

Overview

Australia is one of the most advanced economies in the Commonwealth and is a large, sophisticated market for British goods. Its institutional set-up bears striking resemblances to that of the UK and there is an extremely large British diaspora living there. Historic trading links are strong. As a result, there are high hopes and expectations that a post-Brexit trade deal can be struck relatively quickly with Australia (and possibly with ASEAN as a whole, which would also open up the New Zealand market).

In many regards, Australia and the UK have relatively complementary trade flows. Whilst the former is a large commodity exporter, the latter specialises in producing high-value industrial and service goods. Of note for the West Midlands is the fact that Australia has no domestic car-production, meaning that one of the region's principal exports will face no domestic competition (although competition between imported brands is fierce).

The Australian automotive market is dominated by large vehicles (notably 4x4s, pick-up trucks and SUVs)[i]. Japan and Thailand are the largest source countries for imported vehicles and British automotive manufacturers are unlikely to be cost competitive with low-cost Asian suppliers. The West Midlands accounts for over half of all UK automotive exports to Australia and this share is growing. The North East accounts for a further 18% - much of which is likely to be from Nissan's Sunderland plant. Sunderland may be well placed to capitalise on the elimination of Australian tariffs given its specialism in SUV models (although much will depend on which other plants share global production of the forthcoming X-Trail and Qashqai SUVs).

Australia imposes a "luxury car tax" of 33% on vehicles over AUD$65,094 (AUD$75,526 in the case of fuel efficient vehicles). While not a tariff per se, this limits demand for the premium vehicles produced in the West Midlands – particularly in the premium SUV sector that Jaguar Land Rover operates. Given rapid ongoing growth in the SUV and luxury segments the British government might seek to negotiate on this constraint on growth in exports from the West Midlands to Australia. In the medium term, the greater challenge will be ensuring that the UK remains an attractive place to produce high-value goods and services.

Australia scores highly on a variety of economic rankings and is widely considered to be an "easy" place to do business. It ranks alongside the more developed markets in the EU in this respect, scoring between Latvia and Germany in the World Bank's "ease of doing business" rankings[ii]. Australia is likely to expect concessions around rules on migration during trade negotiations, as well as opening up Britain's agriculture sector. These may be sticking points during negotiations if the UK seeks to achieve the government's target of limiting net immigration to 100,000 people. There are likely to be significant entrenched domestic interests in the UK opposing a reduction in agricultural subsidies or tariffs, particularly in rural constituencies.

An outline of Australia's present tariff regime

Australia imposes some of the world's lowest tariffs. A large proportion of all Australian trade is not subject to any tariff at all. Indeed, the maximum Most Favoured Nation (MFN) tariff levied by Australia is 5%. Australia does impose "Import Processing Charges" although these are typically modest and, according to the Australian government, are designed to recover border costs rather than penalise imports. Nevertheless, due to how they are structured they can constitute an additional barrier to import consignments of modest value (approximately between AU$1000 & AU$3000).

Australia's trade policies have been labelled "highly transparent" by the WTO[iii] and non-tariff barriers in the country are generally regarded as modest in most industries. In trade terms, Australia specialises in the extraction and export of commodities in addition to having a substantial agricultural sector. Like the UK, services make up a large proportion of the total Australian economy and it is here that non-tariff barriers are most clear.

Nevertheless, in most respects, these non-tariff barriers do not take the form of regulatory barriers deliberately designed to disadvantage international competitors. Rather, regulations and standards are typically designed to achieve some domestic policy objective (e.g. ensuring public safety or environmental protection). In practice, this means that British companies seeking to export to Australia need to comply with two sets of standards (British and Australian), often in order to achieve the same ultimate objectives in terms of public welfare.

General Barriers to Trade

Australia is presently undertaking negotiations to accede to the WTO Agreement on Government Procurement. Once it has done so, it will be legally obliged to offer other members' suppliers conditions "no less favourable" than that it offers to domestic suppliers. The UK is already a signatory to this agreement through its membership of the EU. Australia's protection of intellectual property (IP) rights is strong. The relative familiarity of the Australian legal framework suggests that there are limited barriers in this areas to UK companies seeking to trade there.

In terms of the service sector, there are specific areas where Australia engages in restrictive practices. This is particularly the case with regard to television broadcasting where there are minimum annual sub-quotas for Australian content. Codes of practice for commercial radio broadcasting similarly stipulate minimum proportions of their output that must be performed by Australian artists. Both of these may act as impediments to British service exports, although it is unclear what the Australian government's negotiating position is likely to be.

Whilst the National Broadband Network has facilitated neutral access to Australia's broadband infrastructure, the presence of physical infrastructure located in Australia inevitably limits telecommunications service exports. This market remains less open to competition than most, as exhibited by the Telstra Foreign Ownership Regulations (limiting foreign ownership of Australia's national telecommunications provider).

Prospects

General barriers to trade are already comparatively low in Australia. This should facilitate and ease implementation of relatively comprehensive free trade deals. A variety of issues (most notably around standards and certification) should be tackled in order to lower non-tariff barriers further and make trade even easier. Nevertheless, there is already significant commonality in terms of regulatory framework and the underlying legal system. The British government should seek to ensure that rules regarding proof of origin are as liberal as possible as part of any trade agreement and needs to work with potential exporters to ensure that they understand what needs to be done to comply with them.

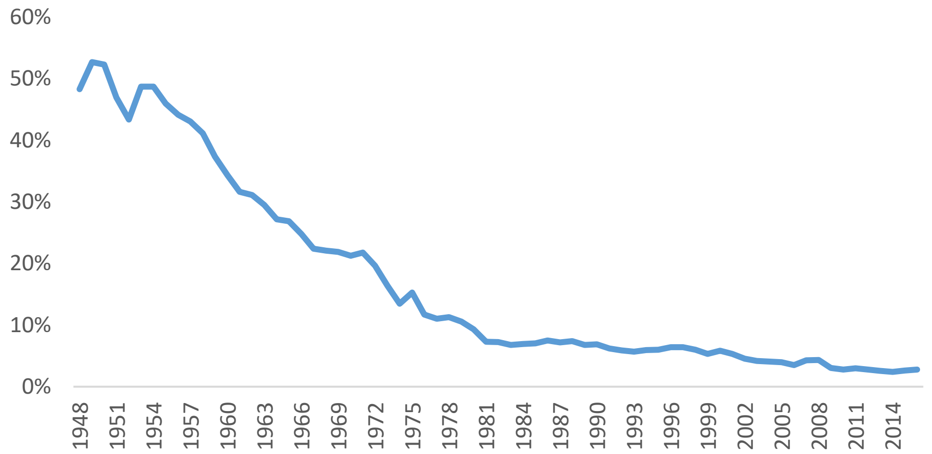
As part of negotiations for any free trade agreement, the Australian government is likely to ask for a relaxation of visa requirements. This is likely to be reciprocal, although it is unclear whether this will undermine the UK government's net migration target. Excluding students from this target is likely to be a relatively easy way of creating some breathing space and will have the additional advantage of enhancing British service exports.

Given the already largely open nature of the Australian economy, the scope for further improvement in terms of tariff reduction is extremely modest. There are improvements that can be wrought in terms of reducing regulatory overlap, easing rules around proof of origin and ensuring that certification and adherence to standards is as easy as possible. Nevertheless, trade barriers are already low and continue to fall.

Since 1999, Australia has consistently absorbed around 1.3% of British goods exports[iv] (ranging from a low of 1% in 2006 to a high of 1.6% in 2012. Until recently, the picture in the service sector looked somewhat rosier with Australia growing from around 2.2% of exports in 2007 to almost 3% in 2012. More recently, however, the share has fallen back. Australia accounts for a slightly more important proportion of the West Midlands' goods exports – around 2.2% - and this has grown from 1.3% a decade ago[v]. In either case, however, trade would need to increase notably in order to offset any reduction of British trade with the European Union.

British Share of Australian Imports

Source: IMF Direction of Trade Statistics Database



As can be seen, the UK share of Australian merchandise imports rapidly fell from around 50% in the mid-1950s to below 10% in the early 1980s. This decline has continued at a much more modest pace since then. In light of the rapid growth of Australian trade with East Asia, it would be unrealistic to expect this share to increase dramatically. Nevertheless, more recent experience suggests that this share may have bottomed out and any trade deal would certainly help put British exporters on a level footing with their American counterparts.

The ultimate reality, however, is that whilst political talks are ongoing, British and international businesses need to continue to be proactive in seeking new market opportunities. In particular, the rapid growth of the East Asian economy presents opportunities, and Australia is highly exposed to this (both as a commodities exporter and as an English-speaking economy dominated by services). As such, it is likely to be businesses rather than Government who drive greater trade with Australia and other wealthy Commonwealth partners. When they do so, they will find that barriers to trade in these markets are already low by international standards and Brexit will affect this only modestly.

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[i] https://www.fcai.com.au/news/index/index/year/all/month/all/article/505 [Accessed 24/10/17]

[ii] The World Bank, *Ease of Doing Business Rank*, [online], June 2016, Available at: http://www.doingbusiness.org/rankings [Accessed on 12th October 2017]

[iii] World Trade Organisation, *Report by the Secretariat*, [online], July 2015, Available at: https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=133397,130634,96007,99874,78162,81969,69566,80263,47669,18420&CurrentCatalogueIdIndex=0&FullTextHash=&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True [Accessed 17th October 2017]

[iv] ONS. (2016). *The Pink Book 2016*. Geographical Breakdown of the Current Account, Available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/9geographicalbreakdownofthecurrentaccountthepinkbook2016 [Accessed 23/10/17]

[v] HMRC Regional Trade Statistics https://www.uktradeinfo.com/Statistics/RTS/Pages/default.aspx [Accessed 23/10/17]