

# The Trans-Pacific Partnership (TPP) Free Trade Agreement

Australian Benefits for Export Industries and  
Opportunities for Foreign Investors

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## Background

Over the past decade, Australia has actively participated in intensive activity in the Asia-Pacific region to link its economy into increasingly integrated systems and ways of doing business. They have done this through the negotiation of Free Trade Agreements as well as promoting the trade facilitation work of APEC. Bilateral free trade agreements have been combined with major trading partners, such as China, South Korea and Japan, and Australia is also involved in others such as Regional Comprehensive Economic Partnership (RCEP).

## Overall Economic Impact

In a less than upbeat outlook, The World Bank, concluded through its modelling that Australia will benefit from the TPP by GDP growth of only 0.7 per cent by 2030. The study explains that highly developed nations such as Australia are either relatively reliant on things other than trade for economic growth or are already fairly free of trade restrictions.

A 0.7 per cent increase to Australia's GDP as a result of the TPP is not insignificant however. This represents a US \$15 billion permanent increase to Australia's economy. This agreement is also open to other economies to join and therefore, over time, the benefits to Australia are expected to substantially increase. Significant regional economies with burgeoning middle classes such as South Korea, Indonesia, Thailand and the Philippines have already indicated a desire to join.

With around 70 per cent of Australia's trade flowing through this region, expanding and deepening Australia's trade and investment relationship is critical to Australia's future economic growth and prosperity.

## Impact on Exports

The TPP will eliminate 98 per cent of tariffs in the TPP region. Tariffs on US \$9 billion of Australia's dutiable exports to TPP countries will therefore be eliminated under the TPP.

As a regional free trade agreement, the TPP will create additional benefits. The combined effect of new market access and common rules will make it easier for Australian businesses, exporters and consumers to participate in, and benefit from, regional value chains (also known as global value chains).

So which export sectors will benefit most in Australia from the TPP?

### Agriculture

Australia is increasingly being considered as the potential 'food bowl of Asia' and accordingly it is not surprising that Agriculture is one of the big winners from the TPP.

Australia exported around \$16 billion worth of agricultural goods to TPP countries in 2014-15, representing close to 35 per cent of Australia's total exports of these products. The TPP will eliminate tariffs on more than \$4.3 billion of Australia's dutiable exports of agricultural goods to TPP countries upon entry into force of the Agreement. A further \$2.1 billion of Australia's dutiable exports will receive significant preferential access through new quotas and tariff reductions.

### Beef

Beef is Australia's largest global agricultural goods export, worth \$6 billion in TPP exports in 2014-15. The industry is benefiting from strong demand from international markets, particularly in Asia, where consumers are increasingly relying on and often preferring imported beef.

Australia also is recognised as a world leader in food safety and a supplier of high quality beef. A weaker Australian dollar relative to recent history also assists in making the Australian beef industry more globally competitive.

Key TPP changes that will further assist the Beef industry include:

- Japan's beef tariffs will be reduced to 9 per cent within 15 years. Australian beef exports to Japan were valued at \$1.9 billion in 2014-15;
- Elimination of the United States price-based safeguard. Australia beef exports to the US were valued at \$3.2 billion in 2014-15.
- Elimination of Canadian beef tariffs (currently 26.5 per cent) within 10 years.

### Dairy

This segment is already attracting much interest from the Chinese market through not only exports but also direct investment in Australian dairy operations.

\$1.1 billion in dairy products were exported to TPP countries in 2014-15 and improved market access to Japan, the US and Canada from the agreement will further stimulate activity.

## Sugar

The TPP has secured Australian sugar farmers largest access granted to a sugar exporting country by the US in over 20 years, with an additional 65,000 tonnes of access from entry into force of the TPP. Australia will now have US access equivalent to Brazil which is the world's largest sugar producer.

The US will also provide Australia with 23 per cent of future additional quota allocations, which could see Australia's raw sugar to the US climb above 400,000 tonnes per annum by 2019-20.

## Other

Additional market access provisions will also assist –

- Sheep meat: TPP exports of \$1 billion
- Wool: TPP exports of \$93 million
- Pork: TPP exports \$79 million
- Cereals and grains: TPP exports \$1.4 billion
- Wine: TPP exports \$878 million
- Seafood: TPP exports \$971 million

## Resources and Energy

Australian exports of resources, energy, and manufactured products generally face far lower tariff barriers than those facing agricultural goods. Nonetheless, the TPP will eliminate all remaining tariffs on Australian exports of non-agricultural products to TPP countries and create new opportunities for Australian exports. Australia's exports of resources and energy products to TPP countries are worth over \$47 billion.

Measures will include tariff elimination on iron ore, copper, nickel and inorganic chemical exports to Peru; butane, propane and liquefied natural gas exports to Vietnam; and refines petroleum exports to Vietnam.

## Services

### Mining Equipment, Technologies and Services (METS) and Energy Services

Australia's reputation as a resource country is well known and the TPP will support and facilitate the expansion of exports by Australian METS and oilfield service providers into South-East Asia and North and South America.

## Education Services

Australia's Education sector is a strong contributor to the domestic economy and has built fruitful commercial relationships with many Asian neighbours. Exports to TPP countries from this sector are valued at \$3.1 billion. In 2014-15, Vietnam and Malaysia were Australia's 3rd and 5th largest education services export markets respectively.

Education services provided to international students have broad economic benefits beyond tuition fees. In 2014-15, onshore international education activity contributed \$18 billion to the Australian economy. Australian universities and vocational institutions are well-placed to deliver education

services, including online education services, and will benefit from guaranteed access to most TPP markets and significant new opportunities in markets where online learning is at an early stage of development. For example, Australia and Vietnam have agreed to further cooperation in the education sector through a pilot program that will enable Australian universities to provide online courses to Vietnamese students.

## Professional and Other Business Services

Australian exports of professional, technical and other business services to TPP countries were valued at \$8.8 billion in 2014-15.

The TPP countries have agreed to work cooperatively to foster enhanced recognition of professional qualifications, and improved licensing and recognition arrangements in professional services sectors.

## Legal Services

Changes have guaranteed access for Australian lawyers to provide advice of Australian, international or third party law on a fly-in, fly-out basis. This will be an enabler for exports of transnational commercial and business legal services to these TPP countries. In addition Malaysia has agreed to open up its legal services sector; Greater certainty has been guaranteed the ability to temporarily enter and work in TPP countries.

## Construction, Architecture, Engineering and Surveying Services

Australia has secured first-time commitments which guarantee access arrangements for Australian engineers, planners and architects in Brunei Darussalam, Canada, Chile, Mexico and Peru and will be able to bid for government procurement contracts.

## Financial Services

The TPP will help ease some of the regulatory burdens Australian firms face when exporting financial services to, or operating in, TPP countries.

TPP includes the provisions that:

- Promote transparency and consultation with industry when a regulatory change is being introduced; and
- Encourage the streamlining of approvals for the issuance of new insurance products.

The TPP includes provisions that help facilitate the recognition of Australian financial service licence holders in TPP countries so as to avoid duplicative licensing requirements.

Australian financial institutions will also be guaranteed the ability to transfer managerial and specialist staff to offshore branches and offices for extended periods.

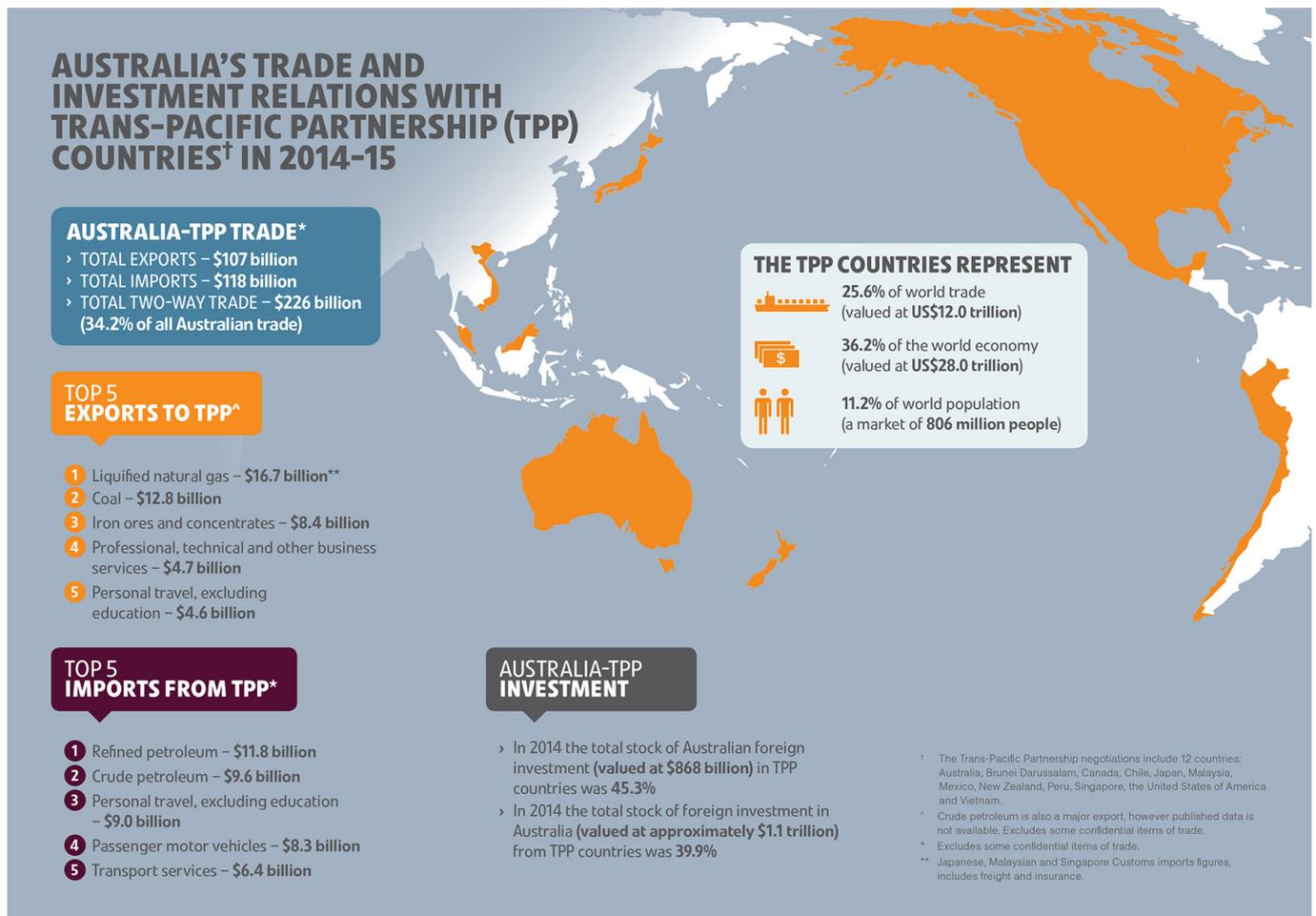
## Investment

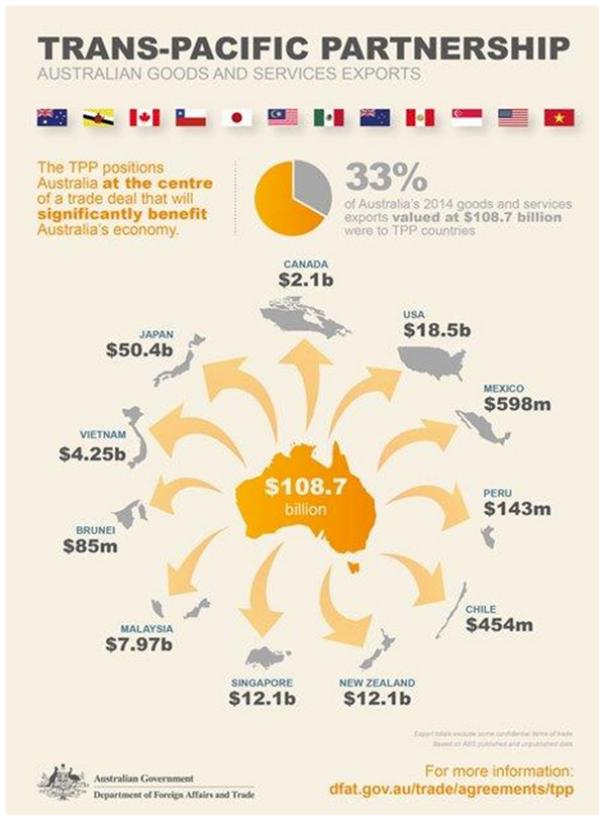
Australia relies on foreign investment to supplement domestic capital. It has helped Australia become the world's 12th largest economy, with 24 years of uninterrupted growth. Investment in Australia from TPP countries more than doubled in the last decade to reach \$1.1 trillion in 2014.

The TPP will promote further foreign investment in Australia by enhancing the global competitive position of certain industries such as agriculture, mining, education and other services. It will also liberalise the screening threshold at which private foreign investments in non-sensitive sectors are considered by the foreign Investment Review Board, increasing the threshold from \$252 million to \$1,094 million for all TPP countries.

Proposed investments by foreign governments will continue to be examined and lower screening thresholds of \$15 million and \$55 million will apply to investment in agricultural land and agribusiness respectively.

Source: [dfat.gov.au/trade/agreements/tpp](http://dfat.gov.au/trade/agreements/tpp)





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## About Prosperity



Allan McKeown is the CEO and Founder of Prosperity Advisers and has over 25 years' experience providing advice to a range of business clients.

Prosperity Advisers Group is a Chartered Accounting and Financial Advisory firm with 130 staff and offices along Australia's east coast in Sydney, Newcastle & Brisbane.

Prosperity has extensive local Australian knowledge and personal global connections through it's Foundation membership of the Leading Edge Alliance.

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