

PACIFIC ALLIANCE

FREE TRADE AGREEMENT



Why is the Australian Government pursuing a free trade agreement with the Pacific Alliance?

The Pacific Alliance is a Latin American trade grouping made up of Chile, Colombia, Mexico and Peru. It represents one of the most dynamic regions in the world: the four countries have strong economic growth, economic stability, and a commitment to global integration. The GDP of the Pacific Alliance is similar to that of Brazil (in 2016, USD \$1.768 trillion and \$1.796 trillion respectively, according to the World Bank). In 2016, Australia's goods and services exports to the Pacific Alliance were worth over \$1.8 billion, with total two-way trade in goods and services valued at approximately \$5.8 billion (Australian Bureau of Statistics). Australian investment in Pacific Alliance countries totalled approximately \$9.6 billion in 2016.

The four countries of the Pacific Alliance, taken together, account for 37 per cent of Latin America's population, 35 per cent of its nominal GDP, 46 per cent of its exports, and 50 per cent of its total imports. Australian goods exporters face disadvantages compared to our competitors who have free trade agreements (FTAs) with each Pacific Alliance country. An FTA with the Pacific Alliance would provide opportunities for expanding Australia's engagement with emerging markets in Latin America. It would also support Australia's goal of capturing the gains of the Trans-Pacific Partnership (TPP) Agreement. Our shared negotiating history with Chile, Mexico and Peru in the TPP, and with all four Pacific Alliance countries in the Trade in Services Agreement (TiSA) negotiations, should make an agreement relatively quick to conclude. Concluding an FTA with the Pacific Alliance would strengthen our economic relationships within the region and help facilitate value chains between the Americas and Asia.

Total population of the Pacific Alliance (over 224 million people, 2015)	Two-way trade between Australia and Pacific Alliance countries (\$5.8 billion, 2016)	Australian investment in Pacific Alliance countries (estimated at AUD \$9.6 billion, 2016)	Coal is Australia's top export to Pacific Alliance countries (\$548 million, 2015-16)
			

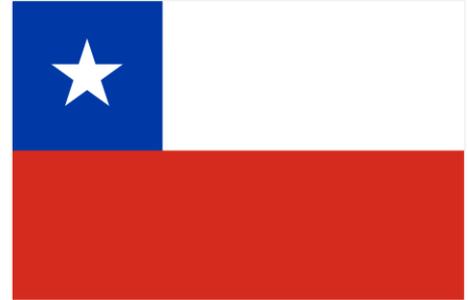
Benefits of a bilateral FTA with the Pacific Alliance

Negotiations for a bilateral FTA with the Pacific Alliance would be assisted by our shared negotiating history with Chile, Mexico and Peru in the TPP Agreement. A high quality, comprehensive FTA is the shortest route to strengthening Australia and Latin America's economic links. It offers the best prospect of delivering outcomes across goods, services and investment that respond to contemporary challenges facing Australian business.



Chile

Chile and Australia share a dynamic and growing economic and trade relationship. Chile is Australia's third-largest trading partner in Latin America, with two-way goods and services trade worth over \$1.4 billion in 2016. Merchandise exports to Chile totalled \$380 million during in 2015-16, mainly in coal, while services exports to Chile over the same period totalled \$183 million, comprising mainly education-related travel and tourism. Australian companies are significant investors in Chile with over 180 companies active in Chile, more than half of which are related to the mining industry. The Australia-Chile Free Trade Agreement (ACIFTA) was Australia's fifth free trade agreement, and the first with a Latin American country. Upon ACIFTA's entry into force in 2009, tariffs were eliminated on 97 per cent of existing merchandise trade. As of 2015, tariffs had been eliminated on 100 per cent of existing merchandise trade, except on sugar.



Colombia



Australia's bilateral trade with Colombia is growing steadily off a modest base. Two-way goods and services trade totalled \$601 million in 2016, dominated by services such as education-related travel. In 2016, there were over 17,000 enrolments by Colombian students in Australia, an increase of 22 per cent from 2015. The stock of Australian investment in Colombia is valued at more than \$3 billion, predominantly in the mining sector. Australian businesses already have a major presence in Colombia with 44 companies operating in the country, particularly in the mining sector. Implementation of the Colombian peace agreement (approved by

Congress in 2016) will open up further opportunities in the mining and agriculture sectors, by making previously unexplored territory accessible. This provides the potential for further strengthening of ties in mining and agribusiness.

Mexico

In 2015-16, Mexico was Australia's second-largest trading partner and our largest merchandise trading partner in Latin America. During this period two-way trade in goods was worth \$3.2 billion, while in 2015-16 merchandise exports to Mexico were worth \$609 million, up 28.8 per cent from 2014-15. Major exports to Mexico were coal, aluminium, sheep meat, and ores and concentrates. Trade in services is growing steadily, with trade in Australian education and training services especially strong and student numbers continuing to grow. Australian investment in Mexico has



increased from \$200 million at the start of the decade, to almost \$6 billion today. Mexico's recent ambitious energy reforms have allowed international companies into Mexico's oil and gas sector for the first time since 1983. Mexico is a significant regional power and a key economy in Latin America. Its size, strong links to markets in Central and South America, and complementary trade profile make it an attractive trading partner for Australia.

Peru



In parallel with Pacific Alliance negotiations, Australia is currently engaged in bilateral FTA negotiations with Peru. Peru has been one of the fastest growing economies in Latin America, and at times the world, over the last decade, a growth trajectory that is predicted to continue over the next few years. In 2016, two-way trade with Peru was worth \$590 million, up 51.2 per cent from the previous year. Australia's principal exports to Peru were mining equipment and education services. There is already a significant Australian investment presence in Peru, with over ninety Australian businesses currently located in Peru, up from ten in 2003. In particular,

there is a large Australian presence in Peru's mining sector.

Why an FTA?

With the TPP currently unable to enter into force in its current form, Australia's trade relationships with Mexico and Peru remain governed by those countries' obligations under the World Trade Organization (WTO) Agreement. Our relationship with Colombia, not a signatory to the TPP, is also governed by our WTO obligations. This means Australian businesses face significantly more barriers to entry than many of our competitors. While we already have an FTA with Chile that has eliminated nearly all tariffs on existing merchandise trade (with the exception of sugar), concluding an FTA with the Pacific Alliance allows Australia to tap into a dynamic, fast-growing region, and to be part of a new, more integrated Asia-Pacific economic architecture that is emerging. It is also not unusual for Australia to negotiate multiple FTAs with other countries concurrently. Having multiple processes supports our goal of opening new trade and investment opportunities for Australia.

An FTA could:

- remove barriers to market access for Australian goods exporters;
- expand and diversify Australian services exports, and improve conditions for services exporters;
- create new investment opportunities and provide a stable environment for investment;
- lower the cost of doing business, for example through more efficient customs procedures;
- address contemporary trade challenges, for example, by ensuring digital trade remains free of barriers;
- negotiations with the Pacific Alliance will complement and reinforce our negotiations with Peru; and
- support Australia's goal of moving forward the TPP process and capturing the benefits of that agreement.

Australia's objectives

Australian negotiators would seek to conclude a high quality, comprehensive FTA to strengthen our economic relationships with Latin America. Key objectives could include the elimination of barriers faced by Australian exporters in the Colombian, Mexican and Peruvian markets, and the creation of greater legal certainty for Australian businesses. An in-built agenda to review the working of the FTA would form the basis for future liberalisation of bilateral trade and investment.

Goods

Australian merchandise exports to the Pacific Alliance are currently concentrated in mining equipment, coal, aluminium, electrical circuits equipment, and machinery and parts. Tariffs of up to 80 per cent are currently imposed on Australian beef exports, while dairy products attract tariffs of up to 98 per cent and sugar attracts tariffs of up to 29 per cent, or cannot be exported at all. Areas of interest for better goods market access include agricultural products, aluminium products, medical devices, mining equipment, pharmaceuticals and paper.

Services

Services exports are a key part of our trade relationship with Pacific Alliance members, with education standing out as the current success story. Australian companies also have a major presence in the lucrative mining sector in Pacific Alliance countries, resulting in significant trade in mining-related services. Through an FTA with the Pacific Alliance, the Australian Government is seeking to grow the existing services trade relationship and create further opportunities for Australian services suppliers in sectors such as financial services, telecommunications, tourism, environmental services and professional services such as legal services, accounting, engineering and architectural services. An FTA would also create greater regulatory certainty for Australian businesses and look to capture future unilateral economic reforms and liberalisation in the services sector by Pacific Alliance members.

Ease of doing business

Getting the rules right assists businesses trade internationally. Through an FTA with the Pacific Alliance, Australia could seek to address such elements as: competition policy; digital trade (for example, e-commerce); and transparency in rules and procedures.

Parallel paths for strengthening our economic ties with the Pacific Alliance

Multilateral negotiations are always a priority for Australia. Unfortunately, the comprehensive, economic-wide deal Australia seeks is not in prospect through the WTO at the moment. In the absence of multilateral trade negotiations on services, Australia, Chile, Colombia, Mexico and Peru are among the 23 negotiating Parties to a 'plurilateral' Trade in Services Agreement (TiSA). However, TiSA negotiations have not yet concluded. An FTA with the Pacific Alliance offers the prospect of delivering outcomes for Australia across the spectrum of our trade and investment interests.

No action on an FTA with the Pacific Alliance would continue putting Australian business at a disadvantage due to tariffs imposed by Colombia, Mexico and Peru. It would also be possible for any of these three countries to amend their policy settings to create further barriers for Australian businesses. No action would mean Australian service providers and investors would miss out on the prospect of new rules facilitating trade and investment and the attendant competitive advantage this provides.

Consultations

The Department of Foreign Affairs and Trade (DFAT) leads Australia's whole-of-government negotiations on the Pacific Alliance FTA. Australia's negotiating positions are determined, in part, through input provided by stakeholders. Stakeholders are invited to express their views through public meetings, industry specific consultations, or written submissions. DFAT is particularly interested in details of specific impediments to trade and investment that the FTA could address. Further information on the Pacific Alliance FTA, including updates on negotiations and how to make a submission or submit a query, is available at www.dfat.gov.au/pacificallianceFTA. Requests for additional information can be made by email to: pacificallianceFTA@dfat.gov.au

FTA implementation

In line with Australia's treaty-making processes, once agreed, an FTA with the Pacific Alliance would be tabled in Parliament. The Joint Standing Committee on Treaties (JSCOT) would then conduct an inquiry into the FTA and report back to Parliament. Parliament would consider any legislation or amendments to existing legislation that may be necessary to implement an agreement.