



Australian Government

Department of Foreign Affairs and Trade

Deputy Secretary

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23 January 2014

Mr Jason McNamara
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Dear Mr McNamara

**Korea-Australia Free Trade Agreement
Details-stage Regulation Impact Statement – for assessment**

I am writing in relation to the attached final details-stage Regulation Impact Statement (RIS) prepared by DFAT for the Korea-Australia Free Trade Agreement (KAFTA).

The RIS now addresses all the comments in your letter of 14 January 2014 and the points set out in Attachment A to that letter. Specifically, in relation to the points raised in your letter:

- The RIS now includes a clear explanation of the problem that is being addressed through the KAFTA. It explains how that the absence of an KAFTA is constraining Australia's ability to fully realise our potential in trading with the Korean market, both as a result of an erosion of competitiveness against our trading partners which currently enjoy preferential access to the Korean market and through the lost opportunity of gaining an advantage against countries which do not currently enjoy preferential access.
- The RIS examines the current status quo, a situation whereby the Korean economy and its subsequent demand for imports is growing, but under which Australia's overall exports to Korea are forecast to decrease over the medium term due to our competitive disadvantage against key competitors. The RIS outlines how the KAFTA would change this equation, levelling the playing field vis-à-vis our competitors who currently enjoy preferential access and opening up new opportunities for Australia across various goods and services markets. This would result in a substantial increase in Australia's exports to Korea from what would otherwise be the case without an FTA.
- The RIS also expands the balanced analysis, drawing on independent economic modelling, of the impacts of the options of proceeding with or not proceeding with the KAFTA. While concluding the KAFTA will have an overall significant positive effect on the Australian economy, the RIS examines the impacts on certain domestic sectors which would face

increased competition as a result of Australia's obligations under the Agreement including tariff elimination on Korean exports.

- The RIS notes the entry-into-force of the KAFTA is expected to result in a small reduction in ongoing business compliance costs for Australian exporters to Korea and as such has a deregulatory impact on Australian business. The RIS also includes a Regulatory Burden and Cost Offsets Estimate Table which has been agreed with OBPR.

Consistent with DFAT's view that Australia's Free Trade Agreements are a 'whole-of-government' endeavour, the deregulatory offsets arising from KAFTA should not be credited specifically to DFAT.

Accordingly, I am satisfied the final details-stage RIS meets the Government's best practice regulation requirements and I submit the RIS to the Office of Best Practice Regulation for formal assessment.

Yours sincerely

Jan Adams
Deputy Secretary
Department of Foreign Affairs and Trade