Regulation Impact Statement (RIS)

Signing of the Australia-Thailand Free Trade Agreement

PROBLEM IDENTIFICATION

Australian exports of goods and services still face substantial barriers in many important global markets. Market access improvements achieved through successive GATT rounds have disproportionately focused on industrial tariffs of developed countries. The trade barriers and market distortions faced by the Australian agricultural sector in the form of high tariffs, export subsidies and domestic support are particularly costly. For exports of industrial goods, while developed country industrial tariffs are generally low, many developing countries maintain high tariffs. There is also the potential for improved access for Australian services exports.

Thailand is Australia's 14th largest trading partner and absorbs just over two percent of Australia's total exports. Australia's merchandise exports to Thailand totalled $2.3 billion in 2003. Services exports totalled $479 million in 2002-03 (the latest figures available). Australia continues to face relatively high tariffs on its exports to Thailand. Thailand's simple average tariff rate is about 15 per cent. By comparison, its simple average tariff for other ASEAN countries under the ASEAN Free Trade Agreement (AFTA) is less than five per cent. Current applied tariffs are high on many import lines of interest to Australia. This includes motor vehicles (up to 80 per cent), agricultural commodities (up to more than 200 per cent, including many tariff rate quotas), processed food and beverages (up to 60 per cent), metals (up to 20 per cent) and a range of other manufactures (up to 30 per cent). Non-tariff measures, including many resulting from arbitrary administrative decision-making in areas such as standards, are also problematic. Very significant barriers to trade remain in many service sectors in Thailand although some reforms are under way. Foreign equity is capped at 49 per cent or less in all service sectors, and foreign participation in key sectors such as professional, financial and telecommunications is highly restrictive.

In addition to these market access considerations, negotiating a free trade agreement (FTA) with Thailand also reflects Australia's broader trade and economic interests in South-East Asia. This Agreement is Thailand's first FTA with an OECD member, and is Australia's second FTA with an ASEAN member. Australia believes that a substantive and comprehensive FTA between Australia and Thailand will:

- signal strong support for further multilateral, regional and bilateral initiatives;
- help create a more open global and regional trading environment; and
- promote strength and stability in the region.

OBJECTIVES

The main objectives of the Australia-Thailand FTA are to:

- achieve a comprehensive and genuinely liberalising FTA in the shortest feasible time;
- provide a framework for addressing bilateral trade issues as they arise, and to develop closer cooperation across a broad range of issues;
- promote closer economic integration with the East Asian region; and
- add momentum to Australia's regional and multilateral trade-liberalising efforts.

OPTIONS

Multilateral trade negotiations

The Australian Government recognises that multilateral negotiations are the most effective mechanism to achieve comprehensive global trade reform. A successful conclusion of the WTO Doha Round negotiations is, therefore, the Australian Government's highest trade policy priority. It is clear, however, especially following the inconclusive end to the WTO Ministerial Conference held in Cancún from 10 to 14 September 2003, that bilateral free trade negotiations are likely to deliver faster and deeper tariff cuts in individual markets for goods of Australian origin.

FTA negotiations

Decisions by the Australian Government to negotiate FTAs are based, among other considerations, on assessments about the potential for the FTA to deliver significant benefits more quickly than is possible through WTO negotiations. The Government considers that any proposed FTA must comply with relevant WTO provisions, in particular Article XXIV of the General Agreement on Tariffs and Trade (GATT) and Article V of the General Agreement on Trade in Services (GATS) which state, respectively, that FTAs must lead to the elimination of tariffs and other restrictions on substantially all trade in goods and provide for the elimination of substantially all discrimination in trade in services.

FTAs that are comprehensive in scope, and set high standards in terms of compliance with WTO rules and developing new benchmarks, can complement the multilateral process by creating incentives for other countries to participate in the trade liberalisation process.

Thailand as an FTA partner

Thailand's economic growth performance over the past few years has been consistently strong and the Thai government is promoting policies that are aimed at building a more open and deregulated economy. Thailand is already an important and expanding market for Australian exports of goods and services, but its market for a range of other products Australia successfully exports to other markets would be opened up by removal of Thailand's high tariffs, while preferential access would also help current Australian exporters to Thailand gain greater market share.

The key issues that were the focus of the negotiations were:

- Trade in Goods:
  - elimination of tariffs on all goods traded between the two parties
- Sanitary and Phytosanitary Measures:
  - confirmation of rights under the WTO agreement
  - enhanced dialogue between the relevant Australian and Thai agencies
- Rules of Origin:
  - rules ensuring that only goods which have been substantially transformed in the territory of one of the Parties qualify for preferential tariff treatment under the FTA;
- Safeguards
  - provisions to protect against damage from surges in imports following tariff reduction/elimination
- Trade in Services:
  - removal of restrictions affecting service suppliers, investors and professionals;
- Investment
  - provision for non-discriminatory treatment of investments, and principles for compensation for expropriation
- Movement of Natural Persons
  - facilitation of business-related entry to Thailand
  - simplified and transparent immigration formalities for business people.

IMPACT ANALYSIS

The impacts and benefits of an Australia-Thailand FTA will depend both on the nature of the agreement, and on the effectiveness of the Parties in implementing their commitments (for example, in relation to rules of origin) once it enters into force.

Macro-economic impact

The Australia-Thailand FTA will combine two markets of substantial size. The resulting larger market will provide opportunities to increase productivity and improve efficiency through economies of scale and increased competition. These scale and competition effects, together with the increased trade in goods and services resulting from lower tariffs and the removal of non-tariff measures, will result in real increases in GDP, welfare and living standards.

The FTA with Thailand will lead to free market access for Australia in Thailand by the end of the implementation period (2025) although most of Thailand's barriers will have been eliminated by 2015.

Modelling of the outcome

DFAT commissioned the Centre for International Economics (CIE) in February 2004 to undertake economic modelling on the costs and benefits of the FTA as negotiated with Thailand. The CIE estimated that, expressing the stream of production and welfare gains over 20 years in net present value terms, the FTA would be worth $US 2.4 billion of additional GDP to Australia. The modelling found that the FTA would also lead to a net present value increase in real consumption of $US 1.6 billion over the same period.

The CIE was also commissioned to model the gains of a proposed Australia-Thailand FTA during discussions between officials of the two countries on a scoping study in 2002. At that time, modelling indicated that the gains in GDP from an Agreement would be up to US$6.6 billion for Australia. The modelling at that time assumed complete liberalisation in both goods and services from entry into force of the FTA. As this has not occurred, the benefits accrued by both Australia and Thailand are substantially smaller than originally forecast. However, the FTA incorporates a range of provisions for the Parties to expand and deepen their liberalisation commitments in the future, especially on services and investment. Further liberalisation in these sectors would increase the overall economic benefit for Australia.

Features of the modelling

The CIE modelling of the impact of the FTA used a broad, economy-wide approach intended to capture both the direct and indirect effects of policy changes as economic linkages between various sectors of the economy are taken into account. The CIE used a dynamic model (the APG-Cubed economic model) to quantify the effects of the FTA, taking into account structural adjustment costs that emerge from the reallocation of labour and capital between sectors when trade barriers fall. On the other hand, trade liberalisation can also deliver benefits through establishing mechanisms to promote closer economic, political and cultural linkages as well as institutional reform and strengthening. These effects can drive further efficiency gains in the economy. However, the APG-Cubed model does not capture such effects, so the gains from the CIE modelling of the FTA might be underestimated.

The CIE modelling of the impact of the FTA is based on a range of assumptions about external developments over the first 20 years of its operation. It takes into account the impact of the foreshadowed changes to tariffs on textiles, clothing and footwear products and automotive products in 2005 and 2010. It does not, however, assume any trade liberalisation either in Australia or Thailand through the WTO or bilateral agreements either side may negotiate (including the Australia-United States FTA, which had not been concluded when the modelling was commissioned). Clearly, any of these factors has the capacity to change the economic impact of the Australia-Thailand FTA and the results of the modelling need to be considered in that light.

The relatively small macro-economic impact expected from the FTA can be seen from the tables below setting out the impact on production and consumption in six broad sectors of the economy in Australia. The relatively low impact at the macro-economic level is partly a result of the openness of the Australian economy and the relatively few changes that need to be made in order to meet the requirements of a free trade agreement; it also partly reflects the relatively low value of Australia-Thailand trade as a proportion of Australia's GDP (the model used 2002 as the baseline, when two-way trade was valued at $US 3.6 billion and Australia's GDP $US 399 billion).

Table 1: Impact on Consumption in Australia*

Sector	**2010**	**2015**	**2020**	**2025**
Energy	0.04	0.04	0.03	0.02
Mining	0.03	0.03	0.02	0.01
Agriculture	0.03	0.03	0.02	0.01
Durable manufacturing	0.00	0.00	0.00	0.00
Non-durable manufacturing	0.07	0.07	0.06	0.05
Services	0.03	0.03	0.02	0.02

Table 2: Impact on Production in Australia*

Sector	**2010**	**2015**	**2020**	**2025**
Energy	0.01	0.01	0.01	0.01
Mining	0.01	0.00	0.00	0.00
Agriculture	0.01	0.01	0.00	0.00
Durable manufacturing	0.13	0.12	0.11	0.11
Non-durable manufacturing	0.12	0.12	0.12	0.11
Services	0.01	0.01	0.01	0.00

* All figures represent the percentage deviation from the baseline (i.e. the situation that would have applied without the FTA).

Impact on Business

1. Trade in goods

There is a high degree of complementarity between parts of the economies of Australia and Thailand. Australia has a global trade surplus in agricultural raw materials, minerals, metals and fuels. Thailand has a large global trade surplus in elaborately transformed manufactures (ETMs) and maintains a bilateral trade surplus in unprocessed and processed foods. In sectors where both countries export, they have differing specialisations. In agriculture, for instance, Thailand's major exports include rice, poultry, processed seafood, and tropical fruits and vegetables. Australia's major agricultural exports include wheat, beef and lamb, fresh seafood, temperate fruits and vegetables, wool and cotton.

(a) Agriculture and processed food

Many of Thailand's tariffs on agricultural products are high. Under the Australia-Thailand FTA, most of agriculture and processed food tariffs will be eliminated by 2010. For meat, current Thai tariffs range from 32 per cent to 51 per cent, for dairy products and margarine from five per cent to 216 per cent, for horticultural produce up to 42 per cent and for processed food up to 30 percent. Thailand's tariffs on wine, currently up to 60 per cent, will be cut to 40 per cent on entry into force and to zero by 2015. Tariffs on processed food, processed fruit and vegetables, flour and milling products, now mostly in the range of 30 per cent, will be eliminated by 2010. Tariffs on grains, malt and wheat gluten will be eliminated immediately. Thailand also maintains very restrictive tariff rates quotas on more than 20 agricultural products, including milk powder and sugar. All of these will be eliminated under the FTA.

Many of these products are very significant exports for Australia in the global market. In 2003, global exports of Australian meat totalled $5.2 billion (exports to Thailand were $7.5 million) and total exports of dairy products equated to $1.9 billion (exports to Thailand were $64 million). Fruit and vegetable exports amounted to $1.2 billion (exports to Thailand were $18 million), while total Australian cereal grains exports in 2003 were $3.7 billion (exports to Thailand were $35 million). Australian global exports of alcoholic beverages were $2.4 billion, while exports to Thailand were insignificant.

The extent to which Australian exports to Thailand of particular commodities may expand depends on a range of factors, many of which are unrelated to the FTA. These factors include levels of demand for particular products in the Thai market, whether there is Australian production capacity to supply Thailand at an increased level and changes that Thailand may make in its tariff arrangements applying to other countries.

On the basis of Australian production capacity and the competitive advantage the FTA will provide to Australia in the Thai market, exports to Thailand of Australian grains and related products (including wheat, wheat flour, wheat gluten, barley, oats and unroasted malt), horticultural products (including tropical fruit and some vegetables) sheepmeat and certain dairy products (including casein, lactose and infant formula) would appear to have the potential to expand from entry into force of the FTA. In the medium term, tariffs subject to phasing arrangements will fall to an extent which will give Australian exporters significantly enhanced opportunities on the full range of agricultural commodities, including beef, all dairy products and sugar, as well as fisheries and forestry products. It could be expected that all rural areas of Australia will be able to benefit from increased opportunities for export of these products to Thailand under the FTA.

CIE modelling finds that the change in overall Australian agricultural production flowing from the FTA is likely to be very small and substantially smaller than the increases in durable manufacturing, non-durable manufacturing and services. It should be noted, however, that the model used by CIE includes many food products (such as meat and dairy products) in the non-durable manufacturing category.

Australia has very low tariffs on agricultural products and processed foods, and nearly all of these will be eliminated on entry into force of the FTA. Elimination of tariffs is unlikely to have a significant impact on imports of these products from Thailand. Concerns have been raised by Australian manufacturers of two processed food products, canned tuna and processed pineapple. In response to these concerns, the FTA will incorporate a special safeguard to protect against a surge of imports during the implementation of the tariff reductions under the FTA. The special safeguard applying to these products will be triggered when imports from Thailand of these products reach a specified level in a certain year, without any requirement for demonstrating damage or the threat of damage to the local industry. When the special safeguard is triggered, the tariff will revert to the most-favoured nation rate or the base rate (i.e. the rate applying to the product on 1 July 2003), whichever is the lower, for the rest of that calendar year. These two products will also be protected by the transitional safeguard provisions applying to all products under the FTA (see Trade Remedies section, below). Moreover, the FTA will have no effect on current anti-dumping duties applying to imports of processed pineapple from Thailand.

Throughout the negotiations, Thailand made clear its interest in obtaining improved access to the Australian market for a number of products which are currently subject to strict import restrictions. The FTA confirms Australian rights under the *WTO Agreement on the Application of Sanitary and Phytosanitary Measures*, and does not constrain Australia's existing science-based approach in this area. The Parties have agreed to establish a consultative forum for discussing quarantine issues, which will provide Australia with the opportunity to raise with Thailand concerns about quarantine-based import restrictions Thailand imposes on Australian goods.

(b) Industrial goods

Although not as high as Thai tariffs on agricultural products, Thailand has some high tariff peaks on industrial goods. Thailand's current tariff on passenger motor vehicles is 80 percent, and its tariffs on automotive components range up to 42 percent. Thai machinery tariffs are as high as 30 percent. Under the FTA, Thailand will immediately reduce tariffs on any industrial goods not subject to immediate elimination to a ceiling of no more than 20 percent (with the exception of small and medium passenger motor vehicles), before phasing to zero. Where not eliminated immediately, tariffs on a range of industrial goods identified by Australia as of specific interest will be halved immediately before phasing to zero. Thailand will eliminate the last of its tariffs on industrial products in 2015. Australia will eliminate its tariffs on all industrial goods by 2010, with the exception of 239 items (apparel and certain finished textiles), with tariffs currently at 25 percent. These tariffs will be eliminated in 2015.

Lower prices resulting from reduced or eliminated Thai tariffs under the FTA will allow Australian exporters to become more competitive in the Thai market. Similarly, lower Australian tariffs may make imports from Thailand cheaper, creating increased competition for Australian producers of like goods, while allowing for more efficient production for Australian manufacturing firms using such goods as inputs.

Economic modelling of the outcome of the negotiations estimates that, as a result of the FTA, the manufacturing sector in Australia will enjoy the largest relative increase in production. In dollar terms, production of durable goods is expected to be about $US 78 million higher in 2025 while the additional production of non-durable goods will be worth around $US 127 million. The model used did not break down the impact beyond these broad economic categories (which are listed in Tables 1 and 2, above) so it is not possible to provide estimated impacts on particular sub-sectors.[1]

The automotive and TCF industries are two in which Thailand has some competitive strengths. In this context, any effect on Australia's existing manufacturing sector is likely to be strongest in Victoria, reflecting the concentration of both the TCF industry and automotive parts manufacturers, and South Australia, which hosts many automotive parts manufacturers.

Australia's most tariff-sensitive sectors are the textile, clothing and footwear industries (up to 25 per cent, reducing to a maximum of 17.5 per cent in 2005) and the automotive industry (up to 15 per cent tariffs, but reducing to 10 per cent from 2005). Manufacturers of some plastics and chemicals (tariffs at 5 percent) also expressed concerns about the elimination of Australia's tariffs on Thai imports under the FTA.

Australia will phase its tariffs on most **textile, clothing and footwear** (TCF) products to zero by 2010, with an initial tariff preference margin of about five per cent. For 239 lines with current tariffs of 25 per cent, the tariff will be phased to zero in 2015. Sections of the Australian TCF industry have expressed concern about increased imports from Thailand following tariff elimination, accompanied by the possibility of illegal trans-shipments. Some sections of the TCF industry claim that an FTA with Thailand will have an immediate effect on its production in Australia, and that job losses can be expected. However, Australia's commitments on tariffs largely reflect those proposed by Australia's TCF sector during the negotiations.

Moreover, in 2002 Thailand accounted for only 1.3 per cent of all of Australia's clothing imports and 2.8 per cent of its textile imports. The relatively small tariff preference Australia has provided to Thailand would appear to make it unlikely that increased imports from Thailand would have any impact on domestic TCF production. The most likely scenario is that any increase in Thai imports would displace imports

---

1 The model used by the CIE classifies as non-durable manufactures one-off consumption items such as processed foods (including rice, meat, sugar, dairy), chemicals, as well as items which are typically not long-lived such as paper products and textiles, clothing and footwear. Durables include metal products, motor vehicles, transport equipment, electronics, manufacturing equipment.

from other sources, including China. In addition, the FTA incorporates safeguards provisions to protect against damaging surges in imports resulting from the reduction or elimination of tariffs (see section on Trade Remedies below for details).

Australia's commitments on TCF tariffs in the FTA need to be seen against the background of moves to reduce Australian tariffs in this sector generally. TCF tariffs currently at 25 percent, 15 percent or 10 percent are scheduled to fall to 17.5 percent, 10 percent and 7.5 percent respectively in January 2005. They will remain at this level until January 2010, when the 10 percent and 7.5 percent tariffs will fall to five percent, and the 17.5 percent tariff will fall to 10 percent.

Thailand will eliminate its tariffs on large **passenger motor vehicles** (PMVs) on entry into force of the FTA. For other PMVs, Thailand will reduce the tariff from 80 per cent to 30 per cent on entry into force and phase them down to zero by 2010.

Australia will eliminate upon entry into force of the FTA its current tariffs on all passenger vehicles, off-road vehicles, goods vehicles and other commercial vehicles of Thai origin. These tariffs are currently 15 percent for passenger motor vehicles (although the general rate is legislated to fall to 10 percent on 1 January 2005 and five percent in January 2010) and five percent for other vehicles.

There are 146 tariff items covering automotive parts and components where the current Australian tariffs for goods of Thai origin are 10 percent or 15 percent. Of these, the tariffs on 98 items will fall to five percent on entry into force of the Agreement, and then hold at that level until elimination in 2010. These include the items identified by Australian industry as more sensitive to increased imports from Thailand[2]. On the remaining 48 items, Australia and Thailand will both eliminate relevant tariffs upon entry into force of the FTA.

Australia will eliminate all current tariffs of five percent or below on automotive parts and components of Thai origin on entry into force of the FTA.

The FTA outcome on motor vehicles is of commercial significance both to Australia and to Thailand. Motor vehicles, particularly light commercial trucks, are Thailand's most important export to Australia. The adjustment to the Australian passenger motor vehicle industry as a result of an Australia-Thailand FTA would be limited by the fact that there are strong complementarities between the two industries. Specifically, Australia manufactures medium and large passenger vehicles, while Thailand manufactures small and medium passenger and commercial vehicles. The differences in comparative advantage mean that the FTA can be expected to lead to new bilateral trade flows, but in the short term this will probably represent a modest increase only in Australia's total imports. This is because of the following factors:

- import penetration of the Australian automobile market is already relatively high at 70 per cent (60 per cent for passenger motor vehicles)
- Thailand exports small and medium PMVs and light trucks to Australia and does not compete directly in the large-car market which is still dominated by Australian-made cars

[2] These items are principally parts and components used in passenger motor vehicles.

- any cost to the Australian automotive and auto parts industry would be offset by the benefits from increased exports to Thailand following the elimination of the high tariffs (up to 80 per cent). The Thai market for large PMVs is currently quite small (about 5000 units per year), but could be expected to expand under an FTA in response to more competitive pricing. While it is possible that automotive manufacturers in Australia will source some of their parts from Thailand, the FTA also creates scope for Australian automotive parts manufacturers to increase sales by taking a larger share of the Thai automotive components market.

The automotive industry expects exports benefiting from the FTA to be modest initially, but to rise gradually. Australian car manufacturers have strongly supported this FTA. The views of parts manufacturers are more varied, but none have opposed the elimination of tariffs by 2010.

On **plastics and chemicals**, Australian will maintain the current tariffs of five percent on 71 tariff items until 2008, when Australia will eliminate the tariff for goods of Thai origin. These items were identified as sensitive by the Australian industry association in the course of the negotiations. Australia will eliminate the remaining tariffs (all currently at five percent) on entry into force of the FTA. The chemical industry expects increased competition from Thailand as a result of the FTA, and considers that phasing in of tariff elimination over five years for some products will enable it to adjust. The outcome secured by Australia in this sector met the priorities of Australian industry.

Australian manufacturers in all states of a wide range of products (including manufacturers of machinery and equipment, cosmetics and pharmaceutical goods, processed food and automotive products) have expressed interest in exporting to Thailand for the first time under the FTA. The expected benefits do not necessarily show up in economic modelling, which focuses on the overall impact on the Australian economy, but the level of interest shown in the FTA since the conclusion of negotiations suggests that a wide range of exporters expect to be able to take significant advantage of the new opportunities the FTA will provide, in many cases in relation to products where Thai tariffs have been so high that no exports have taken place at all.

(c) Trade Remedies

Australia’s capacity to pursue anti-dumping and countervailing duty actions is preserved in the FTA. Global safeguards action will also be possible under the relevant WTO rules.

The FTA will contain a transitional safeguard mechanism which will apply, subject to defined conditions, to goods traded preferentially. The transitional safeguard will apply during the period in which tariff rates are being phased to zero. If a country can show that the relevant domestic industry is being harmed by the cheap imports, it will be permitted to raise the tariff rate to the rate imposed on all other countries. The transitional safeguard may be triggered by a complaint from a domestic producer of a good that imports from Thailand are causing serious damage to domestic production. Before taking safeguard action, a competent authority nominated by the Australian Government would need to conduct an investigation to examine the effect of increased imports on the particular industry. The Cabinet would make a decision about the imposition of a safeguard measure. Relevant agencies have been conducting consultations with representatives of the TCF sector to ensure the safeguards provisions are implemented in a way that protects Australian interests.

In highly unusual and critical circumstances, where delay would cause damage that would be difficult to repair, Australia would be permitted to apply a safeguard measure based on a preliminary finding that there is clear evidence that increased imports from Thailand as a result of the reduction or elimination of a duty pursuant to the FTA have caused or are threatening to cause serious damage. In such cases, an investigation must still be conducted. If such a study finds the provisional application of the safeguard measure was not warranted, any customs duties collected as a result of the provisional measure would need to be returned.

For the most sensitive agricultural products, special safeguards will also apply. In contrast to the transitional safeguards, it is not necessary to prove injury. Instead, a volume trigger has been set. Once this volume of exports has been surpassed, the Thai authorities have the option of raising the tariff to protect their domestic industry. The special safeguard will not apply once the tariff on the product has reached zero.

(d) Rules of Origin

The ROOs system for the Australia-Thailand FTA is similar to that in the Australia-United States Free Trade Agreement, and defines whether a good should qualify for the tariff preference under the FTA by reference to a change in tariff classification (CTC) requirement. This approach is different from that used in the *Australia-New Zealand Closer Economic Relations Trade Agreement*, which defines substantial transformation of goods by reference to a defined amount of local content (50 percent of the ex-factory cost of production). It was not possible to agree with Thailand during the negotiations on a level of local content that Australian industry considered adequate to prevent trans-shipment of goods through Thailand from other countries. Against this background, the Government decided to adopt the approach that would be used in the Australia-United States Free Trade Agreement (AUSFTA). This approach has the benefit of being closely linked to production processes, making it easier for exporters in both countries to understand and apply.

By adopting largely identical rules to those used in the AUSFTA, the Government has addressed concerns expressed by Australian industry over the proliferation of ROOs systems applying to different preferential arrangements. Limiting the number of ROOs systems in operation has ensured that the burden of compliance is more manageable for Australian industry. At the same time, there is sufficient flexibility in the approach taken in the FTA to reflect the circumstances of the bilateral trade relationship – a number of rules in the Australia-Thailand FTA vary from those in the United States FTA. The Government has worked closely with a number of industrial sectors to ensure that the ROOs in the Australia-Thailand FTA promote the interests of Australian industry.

The CTC requirement which forms the basis of the ROOs in the Australia-Thailand FTA is supplemented in some cases by a defined local content requirement expressed as a percentage of the free-on-board (FOB) value of the finished goods. Unlike the AUSFTA ROO, the Australia-Thailand FTA ROO uses only one method to calculate local content in response to Thai concerns about the complexity of having multiple calculation methods. The regional value content requirement varies from product to product; for most products requiring regional value content the threshold varies between 40 and 45 percent.

The ROO applying to textiles and clothing goods is significantly different from the AUSFTA ROO, reflecting the realities of the Australian and Thai industries by removing the “yarn forward” rule. Instead, the ROO uses a simpler CTC with a regional value content level of 55 percent. At least 30 percent of the regional value content for these goods must be sourced from a Party to the FTA, while the remaining 25 percent may be sourced from a developing country, but any content from another developing country is required to undergo the same change in tariff classification that is required for non-originating inputs. This ROO offers the Thai textiles and clothing industry the scope to maintain its current sourcing and production practices and to export to Australia under the FTA, which was a high priority for the Thai Government in the negotiations. However, given the size of the tariff preference that Australia has offered to Thailand in this sector under the FTA (five percent or less until 2010), the ROO is unlikely to lead to any noticeable increase in imports in the first five to ten years after implementation.

In the automotive sector, the ROO requires that the product has undergone a change in tariff classification, and also meets the regional value content specified. The regional value content requirement varies from product to product. In contrast to the TCF rule of origin, the specified regional value content must be made entirely of Thai product.

2. Trade in Services and investment

The commitments made by Thailand on trade in services are not as commercially significant as those made on trade in goods. In the short term, the impact of the FTA on services trade overall between Australia and Thailand will be muted, but there are immediate improvements in access for some areas. The two main areas of gain for Australia are in the relaxation of foreign equity restrictions for some services sectors and an improvement in access to Thailand for Australian business people. As Australian commitments on largely reflect the offer Australia has made in the GATS Doha round, no Australian services companies have indicated defensive interests in relation to the FTA.

Australia already has a relatively liberal services regulatory regime, and conditions of access to most services industries are generally transparent. Thailand’s commitments do not nearly result in comparable access conditions for Australian investors and services exporters. Thailand has offered to remove restrictions on Australian investment in relation to some services (general management consultancy, certain construction services and certain distribution services) and to raise the foreign investment ceiling for a range of other services and mining to 60 per cent. Most of the sectors in which foreign equity restrictions will be lifted or eased are sectors in which some Australian companies have an interest in operating in Thailand. However, even under the FTA, Australian companies will face unchanged restrictions on investment in a range of priority areas, including financial services and telecommunications, as well as residual restrictions in mining.

Thailand has also made commitments under the FTA to facilitate the temporary entry of business people to Thailand which will enhance the effectiveness of Thailand's tariff commitments, as they will apply on Australian business people travelling to Thailand to explore new opportunities for exports of goods. This has been welcomed by Australian businesses operating in Thailand. The FTA contains a provision which commits Thailand to hold further bilateral negotiations on services and investment within three years of entry into force of the FTA, focusing on improving Thai commitments in areas of priority interest to Australia, including financial and telecommunications services and the temporary entry of business people.

The CIE's modelling suggests that services will also see the third largest increase in production as a result of the FTA among Australian sectors. This is due to the very important role that services currently play in the Australian economy and the fact that the expansion in the manufacturing sectors will use inputs from the services sector. It is not possible to identify precisely where the impact might be felt, given the disparate nature of Australia's services sector and Thailand's commitments, but the overall impact is estimated to be small (see Tables 1 and 2, above). According to the CIE's modelling, at least some of the benefits of the FTA for Australian service providers will be a result of an expansion in durable and non-durable manufacturing, which will lead to increased production inputs to those sectors from the services sector. Hence Table 2 shows a small increase in domestic consumption of services.

3. Bilateral cooperation

The FTA provides a framework to strengthen cooperation, in some cases through capacity-building, in areas such as standards and conformance, agriculture, customs issues, electronic commerce, competition policy, government procurement and intellectual property. Trade facilitation measures and cooperation on regulatory matters would increase further the economic gains described above, although it is difficult to quantify the extent of any such gains.

Under the Australia-Thailand FTA, a number of consultative forums are established, the principal ones being the FTA Joint Commission (which will be responsible for monitoring the implementation and further development of the FTA) and an Expert Group on Sanitary and Phytosanitary Measures and Food Standards. These forums will promote cooperation between the governments of the two Parties, which should fix many of the problems and irritants that arise under the FTA. As such, over time these bodies will increase the benefit received by Australian business under the FTA, as there will be a channel to address their concerns.

4. Adjustment costs

Modelling of the impact of the FTA suggests that the overall adjustment costs to Australia are likely to be small and would be outweighed by the economic gains. The two economies are relatively complementary, with different specialisations in those sectors which are important to both countries. The past two decades of trade liberalisation and economic reform in Australia, and the experience in implementing *Australia-New Zealand Closer Economic Relations Trade Agreement*, mean that Australia has already absorbed many of the adjustment costs that result from comprehensive trade liberalisation and economic reform. Even the two most protected sectors in the Australian economy, the automotive and textile, clothing and footwear industries, have been exposed to much greater competition over the last two decades. Many of the industries that stand to gain significantly under the FTA (for example, wheat) are spread across a number of Australian states. The rural sector will benefit from the FTA through the elimination of the Thai tariffs on wheat, meat, horticultural products and processed foods. The only impact felt by Australia's services sector is expected to be positive.

Impact on Consumers

The impact of the FTA on consumers is likely to be wholly positive. Australian consumers will benefit from reduced prices for locally-manufactured products to the extent that those products use inputs imported from Thailand, and the duty savings accruing from the FTA for products imported from Thailand will likely result in lower prices.

Impact on Australian Governments

1.Commonwealth Government

Assuming that the FTA enters into force on 1 January 2005, and that imports from Thailand would grow steadily over time in line with the domestic economy, the Treasury has forecast the FTA's possible financial impact for the Commonwealth Government.

	Fiscal Balance ($m)	Underlying Cash Balance ($m)	Operating balance/Net assets ($m)
2004/05	-45	-45	-45
2005/06	-90	-90	-90
2006/07	-100	-100	-100
2007/08	-110	-110	-110

It should be noted that the potential economic growth that the Australia-Thailand FTA may generate, and any additional taxation revenue resulting from that growth, were not factored into these estimates. Furthermore, it is not possible at this stage to identify to what extent imports from Thailand will not meet the relevant rule of origin in order to qualify for the tariff preference offered by the FTA. If a significant proportion of imports from Thailand does not meet the ROOs and, hence, continues to be subject to tariff duties, the estimate above of the FTA's impact on Commonwealth Government revenue may be overstated. It should also be noted that these estimates did not take into account possible additional losses in tariff revenue that could arise if imports from Thailand displace imports from other countries.

2. State and Territory Governments

While some of the commitments made under the Australia-Thailand FTA impact on areas of State and Territory Government responsibility, there are few commitments going beyond what has been offered by Australia in the GATS Doha round and no changes to the level of access of Thai services providers to the Australian market will occur. As a result, there should not be any additional impact on the State and Territory Governments.

CONSULTATIONS

The Department of Foreign Affairs and Trade (DFAT), and other agencies have conducted consultations on progress in the Australia-Thailand FTA negotiations with State and Territory Governments, peak industry bodies and individual firms in Sydney, Melbourne, Brisbane, Adelaide, Perth as well as several regional centres. Industry representatives, apart from the textiles, clothing and footwear bodies, and State and Territory Governments consulted all supported the broad aims of the negotiations, although some companies have registered concerns about the impact of increased imports.

Throughout the progress of the negotiations, regular contact was maintained with both the Council of Textile and Fashion Industries of Australia and the Footwear Manufacturers' Association of Australia. Face-to-face meetings in both Canberra and Melbourne were supplemented with telephone calls, letters and email exchanges. In response to industry concerns, lengthy phase-in periods for Australian tariff reductions were negotiated. Under the FTA, the most sensitive lines are to retain tariff protection for a longer period than any other Australian product. They will also be protected by the safeguards provisions of the FTA throughout the transition period.

The automotive parts industry peak body, the Federation of Automotive Parts Manufacturers, was also regularly contacted and its views sought. The concerns expressed by this sector were not as great as those of the TCF industry, and were addressed through phase-in periods for tariff reductions on sensitive items.

In the agribusiness sector, input was sought from the National Farmers' Federation, the National Food and Grocery Council, Port Lincoln Tuna Boat Owners' Association and the major processed food exporters. The issues of most concern were canned tuna and canned pineapple. In addition to the special safeguards mechanism incorporated in the FTA to protect against surges in imports of these two products , the canned tuna industry is also likely to be able to offset any increase it faces in competition in the domestic market through increased opportunities for exports to the large US market following entry into force of the Australia-United States Free Trade Agreement.

The Plastics and Chemicals Industries Association of Australia outlined issues of concern for the industry throughout the negotiations. In order to address these sensitivities, phase-in periods were negotiated on products where it was necessary to give the Australian industry time to adjust to increased competition.

IMPLEMENTATION AND REVIEW

The Australia-Thailand FTA will be subject to review by the Joint Standing Committee on Treaties (JSCOT). Should it be approved, amendments to relevant legislation will be proposed to allow for the implementation of the FTA. Subject to both these steps occurring, the aim is for the FTA to enter into force on 1 January 2005.

The first review of the FTA will take place within one year of entry into force. The review will consider the implementation and outcomes of the FTA to date and any difficulties that have arisen. The Australian delegation will take into account the views of stakeholders such as industry and relevant government agencies. Subsequent reviews of the FTA will take place annually, or as agreed between Australia and Thailand.

In addition, there will be a ministerial-level review held within the first five years of the FTA, and at least once every five years afterwards.

The FTA makes specific provision for further negotiations on services to be conducted within three years of entry into force of the FTA. It also makes specific provision for Australia and Thailand to explore the scope for commencing negotiations to bring government procurement within the FTA.

CONCLUSION

The Australia-Thailand FTA is consistent with WTO provisions. It will deliver to Australia market access gains in Thailand and increases in economic activity and welfare at home faster than could be achieved through WTO negotiations. As Thailand's first comprehensive FTA, the Agreement will also promote trade and investment liberalisation in the region, in support of negotiations in the WTO.

There is considerable scope to increase bilateral trade in sectors of particular importance to Australia, including the agricultural, processed foods, automotive and general manufacturing sectors. Thailand is a significant and growing regional market and a substantial number of Australian exporters can expect to gain from the improved access provided by the FTA. The adjustment costs for Australia are likely to be relatively small and will be outweighed by economic gains. The FTA needs to be implemented as quickly as possible to maximise economic gains.

The FTA will also help advance Australia's broader trade aims. The provisions within the FTA for consultation help to provide a framework for addressing bilateral trade issues, as well as providing a forum which will encourage closer cooperation. Finalising such an Agreement with the second largest economy in ASEAN signals the Australian government's commitment to engagement and economic integration with the East Asian region, as well as its commitment to trade liberalisation more generally.