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FACSIMILE TRANSMISSION

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RE: INQUIRY INTO THE AUSTRALIA THAILAND FREE TRADE AGREEMENT

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23 JUL 2004

Dr Andrew Southcott MP
Chair, Joint Standing Committee on Treaties
Commonwealth Parliament of Australia
Parliament House
CANBERRA ACT 2600

Dear Dr Southcott

**INQUIRY INTO THE AUSTRALIA THAILAND FREE TRADE
AGREEMENT**

Please find attached a summary of Victorian Government views regarding the Australia Thailand Free Trade Agreement (ATFTA).

The Victorian Government is supportive of the ATFTA, but is concerned about increased import competition that is likely to face the textile, clothing and footwear industry as a result of the ATFTA.

I look forward to hearing of the outcome of the inquiry.

Yours sincerely



TIM HOLDING MP
Minister for Manufacturing & Export

**VICTORIAN GOVERNMENT SUBMISSION
TO THE JOINT STANDING COMMITTEE ON TREATIES
AUSTRALIA THAILAND FREE TRADE AGREEMENT**

INTRODUCTION

1. The Victorian Government welcomes the opportunity to submit to the Joint Standing Committee on Treaties its views on the Australia Thailand Free Trade Agreement (ATFTA).
2. The Victorian Government supports in principle the ATFTA and recognises the potential flow-on benefits for the Victorian economy. An effective ATFTA will increase trade and investment with Thailand and improve economic links generally. However, while some Victorian industry sectors stand to gain from increased export opportunities, the ATFTA is likely to negatively impact on Victoria's Textiles, Clothing and Footwear (TCF) industry.

CONSULTATION

3. Over the course of the ATFTA negotiations, the Commonwealth Government consulted with the Victorian Government and was aware of its key concerns regarding a potential ATFTA.
4. The Victorian Government's position has been informed by consultation with a range of companies, industry groups, unions and business groups, including: the Carpet Institute of Australia, the Footwear Manufacturers' Association of Australia, the Textile, Clothing and Footwear Union of Australia, the Victorian Employers' Chamber of Commerce and Industry, the Australian Industry Group, the Plastics and Chemicals Institute of Australia and the Council of Textiles and Fashion Industries of Australia.

BENEFITS OF THE ATFTA

5. An economic analysis of the ATFTA, commissioned by the Department of Foreign Affairs and Trade and undertaken by the Centre for International Economics (CIE) in May 2003, estimated that the ATFTA could increase Australia's GDP by around 0.03% per annum by 2010. Over 20 years, the Agreement was estimated to be worth US \$2.4 billion of additional GDP to Australia. The CIE report estimated that the gains to Thailand will be three times the gains for Australia (worth US \$6.8 billion of additional GDP to Thailand over 20 years), because the decrease in tariffs will bring about a more efficient allocation of resources and higher output.

6. Victorian industry stands to gain from increased export opportunities, particularly the automotive, agriculture (particularly dairy, beef and cereals) wine, confectionery, energy and aluminium industries. While there are no substantive gains in services, the ATFTA will provide opportunities for services liberalisation in the medium term (especially in education and flexibility in the movement of business people). The ATFTA will also provide for increased investment flows as a result of Australian firms gaining the ability to take-up majority equity participation in a range of sectors, including mining.
7. It is disappointing that the CIE report does not provide estimates on the effect of the ATFTA at a State and Territory level and provides only limited details on its effect at a sectoral level. While it is expected that the ATFTA will deliver economic benefits for Victoria, these benefits have not been quantified.

IMPACTS ON THE TCF INDUSTRY

8. Although the ATFTA will deliver a range of national and state-level benefits, the Victorian Government is concerned about the potential negative impact of the ATFTA on the TCF industry, particularly given recent policy changes that will also negatively impact on the industry. The ATFTA will put further pressure on Australia's TCF industry, due to increased import competition from a robust and cost-competitive Thai garment sector.
9. Victoria is a key centre for TCF manufacturing, accounting for almost half of Australia's TCF industry. Victoria employs 47% of the national TCF workforce and produces 50% of the industry's value-added production.
10. Victoria's TCF industry is of major importance to the State's economy and is of particular importance to regional Victoria. In 2000-01¹, the 2,500 TCF firms in Victoria contributed:
 - 27,300 jobs (15% of which are in regional Victoria);
 - \$873.40 million in wages and salaries;
 - \$4.47 billion in turnover or 2.6% of Victoria's Gross State Product;
 - \$1.30 billion in value added; and
 - \$1.09 billion in exports, some 5.9% of all goods exported.
11. The Victorian Government is strongly committed to ensuring that the TCF industry is a viable, innovative and sustainable industry into the future.

¹ Australian Bureau of Statistics, Manufacturing Management Units, Summary of Operations by ANZSIC Subdivision, Australia, States and Territories, 1998-99 to 2000-01.

12. Under the ATFTA, Thailand will gain preferential access across all sectors of the Australian TCF industry. Thai firms exporting apparel to Australia will pay five percentage points below the general tariff rates from January 2005 and, as a result, tariffs on apparel will fall to 0% by 2015. Similar preferential access arrangements will exist for Thai firms exporting other TCF goods, and tariffs will reduce to 0% by 2010.
13. While the ATFTA provides for a phase-down period for TCF tariffs, thus allowing the Victorian TCF industry more time to adjust, the industry will nevertheless face increased import competition from Thailand.
14. The reduction in tariffs on Thai apparel will occur at a time when the TCF industry is facing significant pressures, due to the cumulative impact of a number of recent changes, including:
 - Australia's general TCF tariff reductions, which are legislated to fall to 5% by 2010 commencing on 1 January 2005;
 - The 1 July 2003 elimination of all tariffs on TCF products from least developed countries; and
 - The potential Australia US Free Trade Agreement (AUSFTA), which gives US TCF products preferential access.
15. Modelling by the National Institute of Economic and Industry Research (NIEIR) estimated that the adoption of the Productivity Commission's post 2005 preferred approach (i.e. reducing most tariffs to 5% by 2010, all by 2015 and phasing-out the industry assistance program by 2013), which was subsequently legislated by the Australian Government, would result in the loss of 6,400 jobs in Victoria's TCF industry. The elimination of TCF tariffs under the ATFTA could increase both the size and immediacy of job losses.
16. A recent study by the Centre for Work and Society in the Global Era, entitled "*The Long Goodbye: TCF Workers, Unemployment and Tariff Deregulation*", looked at the experiences of TCF workers retrenched between 1997 and 2003. The study found that the majority of workers were unable to find commensurate employment after being retrenched - only 54% of workers had found new work since retrenchment and of those who found work, none were earning as much as they earned at their last job before retrenchment.
17. Given the numerous policy changes that are likely to negatively impact on Australia's TCF industry in the coming years, significant structural adjustment is inevitable. With the already announced reductions in tariffs, the Commonwealth Government has acknowledged that the TCF industry will face further job loss in the coming years. The reduction and eventual elimination of TCF tariffs under the ATFTA could increase both the size and immediacy of job losses. On these grounds, it is critical that the Commonwealth Government put in place

appropriate adjustment mechanisms to assist employees displaced by the further restructuring of the TCF industry.

18. The Victorian Government firmly believes that it is incumbent on governments, when introducing major policy changes which will negatively impact on an industry's labour force, to ensure that there are mechanisms in place to assist workers. It is particularly important for this to occur prior to the contraction of the industry, as workers are most likely to be re-employed if they are seeking work and/or retraining *prior* to being retrenched. Such assistance needs to take the form of ongoing assistance in finding alternate employment, and in dealing with the vast array of employment providers, training providers and job search networks. There are a number of best practice models that could assist the Commonwealth Government in tailoring packages to suit the individual needs of TCF workers, who generally have low skill transferability, are older, often lack English proficiency, and thus have low job mobility.
19. The Victorian Government is also concerned that tariff reductions will occur at a time when the proposed reduction in funding for the Strategic Investment Program (SIP) (currently before the Senate) will lead to lower levels of assistance in improving the international competitiveness of the TCF industry. SIP has played a critical role in assisting TCF companies to innovate and invest in new technologies. Modelling by NIEIR shows that the impact of SIP on output is both cumulative and long term. It is essential that appropriate policies (such as SIP) support innovation and encourage investment in value added production in the TCF industry, particularly at a time when the industry is facing structural adjustment due to tariff reduction. The proposed reduction in SIP funding will result in inadequate assistance to firms facing very significant pressures resulting from the cumulative impacts of the recent policy changes in tariffs on TCF products.