

AUSFTA

Submission No:91.....



Premier of Victoria

15 APR 2004

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

Dear Dr Southcott

PROPOSED AUSTRALIA-UNITED STATES FREE TRADE AGREEMENT

Thank you for your letter of 11 March 2004, inviting Victoria to submit comments to the Joint Standing Committee on Treaties on the proposed Australia-United States Free Trade Agreement (AUSFTA).

Please find attached a Victorian government submission to your inquiry. Victoria supported negotiations for an AUSFTA in principle, but has a number of concerns and questions about the proposed Agreement that require further scrutiny before we can take a final position.

I am also sending a copy of our submission to the Senate Select Committee on the Free Trade Agreement between Australia and the United States of America.

I look forward with interest to your report.

Yours sincerely

HON STEVE BRACKS MP
Premier of Victoria

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Information Privacy Act 2000*. Should you have any queries or wish to gain access to your personal information held by this Department please contact our Privacy Officer at the above address.



**AUSTRALIA-UNITED STATES FREE TRADE AGREEMENT:
VICTORIAN GOVERNMENT SUBMISSION TO
COMMONWEALTH PARLIAMENTARY COMMITTEES**

INTRODUCTION

1. Victoria supported negotiations for an Australia-United States Free Trade Agreement (AUSFTA).
2. Some aspects of the proposed Agreement are disappointing. Our preliminary analysis is that an AUSFTA would have a mixed impact on Victoria. We note that the Commonwealth Government is commissioning further economic modelling on the AUSFTA, and that it now plans to identify State and Territory impacts in this.
3. We believe that several areas of the proposed Agreement (audiovisual, intellectual property, pharmaceuticals, cross border trade in services, investment, environment, rules of origin, temporary entry of business persons and dispute settlement) merit particularly careful scrutiny.
4. Victoria welcomes this opportunity to submit to the Parliament of the Commonwealth our views on the proposed Agreement and the related negotiation process.

PROCESS

5. Victoria has long recognised that an AUSFTA could potentially deliver substantial benefits to the Australian economy. Premier Bracks wrote to Prime Minister Howard in February 2003, informing him that Victoria supported negotiations, subject to the following principles:
 - the proposed AUSFTA should be comprehensive in scope;
 - before entering into negotiations, the Commonwealth should have established a clear walk away position, to be used if the proposed Agreement became anything less than a proper and comprehensive free trade agreement
 - the Commonwealth needed to clearly identify those industries that would suffer from the proposed Agreement, and have in place appropriate adjustment mechanisms; and
 - the Commonwealth must keep States and Territories fully involved throughout the negotiation process.
6. Following the commencement of negotiations in March 2003, Victorian officials sought to remain in close touch with Commonwealth officials and provided input on a range of issues.
7. For the first time in negotiations for a free trade agreement, State and Territory representatives were able to observe some aspects of the negotiations. A senior Victorian official attended the fourth and fifth round of negotiations in Canberra (October 2003) and Washington (December 2003).

8. During negotiations, the Commonwealth indicated that it was not inclined to model the likely impact of an Agreement at State and Territory level. Accordingly, Victoria commissioned its own modelling from Monash University's Centre of Policy Studies (COPS). This was made available publicly in February 2004, and a copy is attached for the information of Parliament (**Attachment A**).

LIKELY IMPACT OF THE PROPOSED AGREEMENT

9. The COPS modelling concluded that an AUSFTA could yield benefits to Victoria of some \$230 million per annum by 2020. Negative impacts for some industries (including motor vehicles and parts; plastics and chemicals) would be offset by gains elsewhere (including an estimated 270% long-run increase in exports of dairy products). Victorian Government consultations with industry broadly supported the modelling conclusions.
10. However, the modelling conclusions were based on the important assumption that an AUSFTA would lead to across-the-board elimination of all forms of import and export taxes on Australia-US merchandise trade (including trade in primary and secondary agricultural products). As is now clear, free trade has not been achieved in a number of areas, including dairy, beef and sugar. **This is disappointing.**
11. For **merchandise trade**, our preliminary analysis is that implementation of the proposed AUSFTA would result in net positive impacts for Victoria in the electronic equipment, dairy, beef, wine and horticulture sectors. However, we would expect net negative impacts for Victoria in the automotive, plastics and chemicals and metal and minerals sectors (**Attachment B**).
12. It is more difficult to assess the likely impact on **non-merchandise trade**. Over time, we might expect economic gains from closer integration of the Australian and US economies and increased access to US government procurement. However, we believe that proposed provisions for audiovisual and intellectual property could also result in negative impacts.
13. We note that the Commonwealth Government is commissioning further economic modelling on the AUSFTA, and that it now plans to identify State and Territory impacts in this. **We continue to consider it essential that the Commonwealth:**
 - **identify those industries, that would suffer from the proposed Agreement;**
 - **identify the impact on places/population groups associated with those industries;**
 - **identify the impact of the proposed Agreement on small business; and**
 - **state clearly how it would address the needs of groups adversely affected by the Agreement (including via transitional assistance).**
14. In future, the Commonwealth should identify likely economic impacts of proposed Treaties on States and Territories at the outset of negotiations.

KEY ISSUES

15. We believe that several areas of the proposed Agreement merit particularly careful scrutiny:

- **Audiovisual**: the AUSFTA introduces significant new constraints on the ability of Australian governments to maintain and adopt policy measures to support audiovisual and cultural objectives (Chapters 10 and 11 and Annex II-6). We are concerned at the potential impact that this may have both on Australian cultural objectives and on Australia's audiovisual industry. **We need a clearer view of the likely effect of these provisions.**
- **Intellectual property**: we understand that the AUSFTA would require Australia to adopt major elements of US copyright and patent law, including longer copyright terms, new enforcement provisions and new obligations for Internet Service Providers dealing with allegedly infringing material on their systems and networks. While new enforcement provisions would improve the ability of copyright holders to enforce existing rights, it seems probable that Australia, as a net importer of copyright material, would face net costs as a result of extended copyright terms. **We need a clearer view of those costs. We also need a clearer view of the likely impact of the AUSFTA on the biotechnology and generic pharmaceutical industries.**
- **Pharmaceuticals**: while we welcome steps to increase transparency in the Pharmaceuticals Benefits Scheme, the proposal for a review panel poses some practical problems. Pharmaceutical companies can already resubmit to the Pharmaceutical Benefits Advisory Committee if they have new information. So **key questions** are:
 - would the independent review panel have different criteria for listing a drug?
 - who would sit on the review body?
 - would the proposed review mechanism also apply to Cabinet decisions?

We would also welcome more information on how the proposed provisions for adjustments to reimbursements would work in practice. If a drug performed worse than expected, would the listed price of that drug drop?

- **Cross-Border Trade in Services**: we note that Australia's reservation in respect of social services (Annex II-5) does not refer to public utilities or public transport (unlike the equivalent reservation in the Australia-Singapore Free Trade Agreement; see 4-II(A)-6) or a number of other service areas. **We would welcome further information on the implications of this**, bearing in mind that:
 - the Senate Standing Committee on Foreign Affairs, Defence and Trade has previously commented on uncertainty surrounding the definition of "service supplied in the exercise of governmental authority" (Article I.3 of the GATS; Article 10.1 of the AUSFTA); and
 - unlike under GATS, Australia would be entering into general (rather than sector-specific) obligations.

- Victoria and other States and Territories operate a number of privatised and mixed public/private services for public benefit.
- **Investment:** a number of provisions of the Investment Chapter are similar to those found in the controversial North American Free Trade Agreement (NAFTA). NAFTA has been used by investors to challenge government decisions on hazardous waste management, banning of carcinogenic fuel additives, maintenance of clean drinking water, control of bulk water exports, timber agreements and the legal authority of local governments to make planning and development decisions.

While the AUSFTA contains additional safeguards not found in NAFTA, Victoria has a number of outstanding concerns, including:

- **Requirement to pay compensation: we are concerned that the interrelationship of Article 11.7, Annex 11-A and Annex 11-B could require Australia to compensate US investors for regulatory actions (even those that are non-discriminatory) affecting their investments, albeit “in rare circumstances” (Annex 11-B 4(b)).**

We note that the term investment is widely defined to include (among other things) a licence, authorisation or permit given under Australian law. Legal advice sought by the Victorian Government suggests that measures of a type that do not attract compensation under our domestic laws may attract compensation via Article 11.7 of the AUSFTA.

- **Potential environmental impact: we are concerned that Article 11.11 of the Agreement, which applies only to measures “consistent with this Chapter”, would offer no effective protection for environmental measures.** We note that other Agreements have provided general exceptions for environmental measures: for example, the Australia-Singapore Free Trade Agreement provided an exception relating to the conservation of exhaustible natural resources (Chapter 8, Article 19). However, general exceptions from the AUSFTA (Article 22.1) do not apply to the Investment Chapter. This issue is of immediate concern in the context of current debate about water allocation.
- **Investor-state dispute settlement provisions: while we are pleased that the proposed Agreement does not include investor-state dispute settlement provisions (which have created significant uncertainty under NAFTA), we are concerned by the provision in Article 11.16 that: “Upon...request, the Parties shall promptly enter into consultations *with a view towards allowing* [a private] arbitration claim and establish [investor-state dispute settlement] procedures.” (emphasis added).**

- Environment: we note that Chapter 19 of the proposed Agreement would apply to State and Territory laws in Australia, but not to State laws in the United States. **Given the substantial body of environmental regulation at State level in the United States, we are concerned by this asymmetry, and its potential implications for Australian business.**
- Rules of origin/administrative burden: while we understand that industry would generally be prepared to adopt the US approach towards rules of origin (ROO), **we believe it important to ensure that different administrative arrangements (eg under the Australia-Singapore Free Trade Agreement, the proposed AUSFTA and the proposed Australia-Thailand Free Trade Agreement) do not place an unacceptable burden on companies (particularly small businesses).**
- Temporary entry of business persons: Australian business persons currently face a number of difficulties (particularly lengthy time periods) in obtaining temporary entry to the US. This issue was not addressed substantively in the AUSFTA negotiations. **We believe that there is an urgent need for the Commonwealth Government to press this issue with the relevant US authorities.**
- Dispute settlement: Chapter 21 of the AUSFTA contains detailed provisions for the settlement of disputes. **We would welcome further details on how the Commonwealth Government would plan to involve the States and Territories in consultations and/or proceedings relevant to our interests. We note our understanding that, under international law, the Commonwealth would be responsible for any compensation payments under the AUSFTA.**

COMMONWEALTH-STATE CONSULTATION

16. For the most part, we believe that DFAT officials made conscientious efforts to keep key stakeholders informed of developments in the negotiations.
17. DFAT Ministers and officials held a number of meetings and teleconferences with the States and Territories. DFAT provided a range of briefing papers as the talks proceeded. DFAT also involved the Victorian government in consultations with local industry.
18. However, we note that there are currently no clear mechanisms for national follow-up to free trade agreements. **Where agreements are implemented, we believe there is a need for a coordinated national approach to: ensure a common understanding of Commonwealth/State and Territory responsibilities for implementation; ensure that Australian businesses can exploit new opportunities; monitor the effectiveness of transitional assistance; and review the working of agreements at set periods after entry into force.**
19. **Against this background, we propose that a revised set of protocols for Treaty/Agreement consultations be jointly developed by all jurisdictions.**

TREATIES AND THE PARLIAMENTARY PROCESS

20. We note that the Senate Standing Committee on Foreign Affairs, Defence and Trade has previously made a series of recommendations regarding Treaties and the parliamentary process. **We support the proposed changes, which in our view would provide additional transparency to all stakeholders in the Treaty negotiation process.**

**Government of Victoria
April 2004**

**THE EFFECTS OF A FREE TRADE
AGREEMENT BETWEEN AUSTRALIA AND
THE USA WITH SPECIAL REFERENCE TO
THE VICTORIAN ECONOMY: EXECUTIVE
SUMMARY AND CONCLUSIONS**

**Study by the Centre of Policy Studies for the
Victorian Department of Premier and Cabinet**

November 2003

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EXECUTIVE SUMMARY

1. Introduction

This report documents analysis of the economic effects of the proposed AUS/USA free trade agreement (FTA) with special emphasis on the Victorian economy. The analysis uses a specially-built version of the GTAP model.

Two scenarios are modelled. The first is a baseline projection. The baseline is a sequence of annual forecasts for the global economy, constructed using external forecasts for macro variables and for rates of import protection and export subsidies. In effect, the baseline shows what might be expected to happen if there was no AUS/USA free trade agreement (FTA). The second scenario involves across-the-board elimination of all forms of import and export taxes on AUS/USA merchandise trade (including trade in primary and secondary agricultural products). The cuts are implemented gradually over a four-year period, 2004 to 2007. Standard modelling assumptions apply, including the assumption that real wage rates adjust to keep employment fixed in the long-run. This means that in both regions the FTA has no long-run effect on national employment. Any long-run changes in the national labour market are revealed as changes in the national real wage rate rather than as changes in national employment. Another standard assumption maintained in our analysis is that the FTA does not affect production technologies. Thus we do not make allowance for improved efficiencies that might accompany increased competitive pressures.

Note that our assumption of a phasing-in of the FTA-cuts in trade taxes is made for modelling convenience. It has little or no impact on the simulated long-run effects of the FTA.

2. Economic model

GTAP is a multi-region Computable General Equilibrium model which has been used extensively for analysis of trade-policy issues. It models each region as an economy in its own right, with region-specific prices, region-specific consumers, region-specific industries, and so on. The regions are linked via trade in goods and services and flows of investment. The version of the model used for this report has been modified by:

- the inclusion of dynamic mechanisms that allows us to produce sequences of annual solutions; and
- the inclusion of new variables and equations that allow GTAP results for Australia-wide output and employment by industry to be disaggregated down to results for output and employment by state and by sub-state region.

3. Baseline Projection

In generating the baseline projection, we use forecasts for key supply-side macroeconomic variables and assumptions for changes in import protection and export subsidies provided by researchers at the GTAP project. For Australia we supplement these data with information on changes in rates of import protection and export subsidies between 2001 and 2005, which reflect announced plans (including the FTAs between Australia and Thailand and between Australia and Singapore).

4. The effects of the AUS/USA free trade agreement

National Results (Tables A1 to A3 in the main report)

- Progressive cuts in protection through the four years 2004 to 2007 lead to increased employment, increased capital and higher real wage rates in Australia.
 - In 2007, relative to baseline levels, total employment has increased by 0.08 per cent, capital by 0.21 per cent, and real wage rates by 0.25 per cent.
- After 2007, employment slowly moves back to its baseline level, while capital and real wages progressively rise relative to their baseline values.
 - In the years following the last year of protection cuts (2007) the dynamic mechanisms in the model move the economy towards a position of long-run equilibrium. In the long-run year capital and the real wage rate in Australia have each increased relative to their baseline values by around 0.4 per cent
- The FTA leads to increased real GDP.
 - The deviations in real GDP reflect a weighted average of deviations in factor inputs. Accordingly, real GDP is elevated above its baseline level in each year of the simulation.
 - In the long-run year the GDP-deviation for Australia is 0.17 per cent, while for the USA real GDP is up 0.004 per cent.
 - It can be shown that the long-run real-GDP deviations are proportional to the percentage changes in the real cost of capital in each country directly arising from the protection cuts.
- The FTA leads to increased real private consumption in Australia.
 - Note, though, that the percentage increases in consumption are smaller than the percentage increases in real GDP due, in part, to a decline in the terms of trade.
- The effects of the agreement vary across industries in Australia (see Table A2). The mechanisms, however, are fairly straightforward, depending primarily on the extent to which the protection cuts exposes sectors to additional import competition and on each sector's export orientation.
 - The most favourably affected Australian sector is Sugar. It has an especially high USA-export propensity, and it faces negligible competition from USA imports. Thus, even though the initial rate of protection against Australian sugar in the USA is quite low removing this protection yields considerable benefit to the Australian industry
 - The next most favourably affected sectors are Dairy products and the related Raw milk industry.. This reflects the very high initial rate of protection against Australian dairy imports into the USA. Thus, even though two-way trade in dairy between Australia and the USA is small relative to overall sales for each industry (see Table 5), eliminating protection against Australian imports in the USA imparts considerable benefit to the Australian dairy industries.
 - The fourth most favourably affected industry is other Electronic equipment. The USA-export propensity for this industry is relatively high. Thus, even though the initial rate of protection affecting exports to the USA is quite small, free trade leads to a significant increase in output for the Australian industry based on increased exports to the USA.
 - The fifth most favourably affected industry is Meat products. Its situation pre-FTA is very similar to that of the Sugar industry, with a relatively high USA-export propensity. This, combined with an initial rate of protection in the USA market of 4.0 per cent, means that removing protections results in a relatively strong stimulus for the Australian industry.
- There are seven industries for which the FTA reduces output relative to baseline values in the long-run year (2020).
 - Prominent among these is Motor vehicles and parts. The Australian motor vehicles industry faces quite strong competition in its local market from USA imports: USA-import penetration is 7.3 per cent. Relative to the level of USA-import penetration, though, its USA-

export propensity is quite low (2.6 per cent). The relatively high rate of import penetration, combined with an initially high rate of protection in AUS against USA imports means that when the protection is removed the surge in USA imports causes a relatively significant contraction (relative to base) in the output of the local industry.

- Among the remaining industries for which the FTA causes output to decline are Machinery nec, Non-metallic building products, Vegetable oils and fats, and Chemicals nec. Their presence in the list of least-favourably affected industries is somewhat surprising given the low initial rates of protection on these products in both countries. However, USA-import penetration in Australian markets for these products is relatively high, and so removal of protection generates enough additional imports to reduce production of all four AUS industries
- The FTA has relatively mild, but positive, impacts on the majority of Australian industries.
 - The majority of Australian industries are projected to experience changes in output (relative to baseline values) in the long-run year of between 0 and 0.9 per cent.
 - Industries in this least-affected group typically face little exposure to trade with the USA. The main influences on the least-affected group are the changes in final domestic demand brought by the FTA.
- Included in the “least-affected” group are the two TCF industries, namely Textiles (including wool scouring) and TCFnec (mainly clothing and footwear).
 - In the long-run year, the output of Textiles in Victoria is up 0.82 per cent, with employment rising by just under 200 persons. By contrast, output in the Victorian TCFnec industry is projected to fall by 0.01 per cent, with employment down by roughly 70 persons.
 - These contrasting results reflect, in the main, the initial levels of protection against USA imports for Australian produced Textiles and TCFnec (see Table 3). Initially, protection is somewhat higher on TCFnec than it is on Textiles. It follows, therefore, that removing protection harms the TCFnec industry relative to the Textiles industry. In the long-run year, USA imports into Australia of Textiles is up 46.6 per cent relative to its basecase level, while that of TCFnec is up 225 per cent. Going the other way, Australian imports into the USA of Textiles is up 40 per cent, while that of TCFnec is up 75 per cent.

State Results (Tables A4 to A6 in the main report)

- The states that gain most from the FTA are Queensland, Western Australia and Tasmania. The states that gain least are Victoria and South Australia.
 - In 2020 real GSP in Victoria is 0.13 per cent above its basecase level (equivalent to around \$230 million), while employment is down 0.034 per cent relative to its basecase level (representing a loss of around 800 full and part-time jobs).
 - It should be noted that all states gain, and that the difference between the increase in real GSP for the state that gains most (Western Australia) and the state that gains least (Victoria) is only 0.09 percentage points.
 - An implication of our regional methodology is that regions with an over-representation of favourably affected “national” industries gain at the expense of regions with an under-representation of such industries. Victoria gains least because it is over-represented in industries least favourably affected by the FTA. Prominent among these is Motor vehicles and parts.
- The numbers in the body of Table A6 help us to understand the differences between the long-run (2020) deviations in each state’s GSP. They decompose the difference between the percentage deviation in each state’s GSP and the percentage deviation in real GDP into the contribution attributable to each sector.
- For Victoria there is a mix of positive and negative sectoral contributions.
 - The most obvious weakness is Motor vehicles and parts. This sector is projected to experience a 1.12 per cent decline in output at the national level (and in Victoria), compared to a rise of 0.17 per cent in real GDP, and is over-represented in Victoria.

- The negative entries for Victoria towards the bottom of the table are for "local" industries. The percentage deviations in output in Victoria for local industries tend to be smaller than at the national level reflecting negative local multiplier effects.
- Victoria also has strengths (i.e., industries that make a positive contribution to the gap between the increase in Victoria's real GSP and the increase in national GDP). Of these, the most notable are raw milk and dairy products, in which Victoria is over-represented and which are projected to expand by more than real GDP. Another area of strength is the Textiles industry (which includes wool scouring).

Results for Victorian Sub-state Regions (Tables A4, A5 and A7)

- In the long-run year, the regions that gain most from the FTA are the Western District (real GRP up 0.47 per cent *c.f.* an increase in Victoria's real GSP of 0.13 per cent), Wimmera (real GRP up 0.39 per cent), Goulbourn (real GRP up 0.38 per cent) and the Mallee (real GRP up 0.37 per cent).
- All regions are projected to experience increased real GSP as a result of the FTA, but Melbourne and Barwon are expected to expand least.
- In terms of employment, the FTA results in net job loss in Melbourne, Barwon and Central Highlands.
- The numbers in the body of Table A7 help us to understand the relative results for regional GRP in the same way as the numbers in Table A6 allowed us to understand the relative results for state GSP.
 - The main strength of the Western District (D3) is milk and dairy production. Both industries are expected to increase their share of GSP and are over-represented in the region. Another strength of the region is Motor vehicles and parts, which is expected to experience a decline in its GSP share, but which is under-represented in the region. Other strengths are in the services industries that benefit from positive local multiplier effects.
 - Now consider the regions that do least well: Melbourne (D1) and Barwon (D2). The main weakness of Melbourne is an under-representation of milk and dairy and an over-representation of Public services, which experiences a small reduction in output. The major weakness of Barwon is an over-representation of adversely affected Motor vehicles and parts. However, this is partly offset by an over-representation of Textiles (including wool scouring), which is projected to expand its share of GSP.

CONCLUSIONS

The simulation results suggest the following responses to the hypotheses listed in the Tender document.

1. *The impacts of AUSFTA will be uneven in Victoria; effects will be concentrated in particular regions.*
 - Tables A4 and A5 show that the effects of the AUSFTA are uneven across regions. All regions gain in terms of GSP, but some gain less than others. The regions that gain least are Melbourne, Barwon and Central Highlands. The regions that gain most are Western District, Wimmera, Goulbourn and Mallee.
 - In terms of employment some regions lose jobs (Melbourne, Barwon and Central Highlands), while other regions gain jobs. In terms of job numbers, around 1,600 jobs are lost in Melbourne in the long-run year. In absolute terms, the largest job gain is in the Western District, which picks up around 200 full and part-time jobs in the long-run year.
2. *The impact on TCF will have significant consequences in regional Victoria.*
 - Table A7 shows the long-run output-deviation for the two TCF industries (Textiles and TCFnec) in Victoria: 0.822 per cent (Textiles) and –0.011 per cent (TCFnec).
 - Table A7 also shows the contribution of the TCF industries to the gap between the percentage deviation in each region's real GRP and the percentage deviation in Victoria's real GSP. The percentage deviation in output of the Textile industry in Victoria is 0.82 per cent, well in excess of the increase in Victoria's real GSP of 0.13 per cent. This means that the industry will make a positive contribution in regions where it is over-represented, but a negative contribution in regions where it is under-represented. The over-represented regions are Barwon and Ovens-Murray. The percentage deviation in output of the TCFnec industry in Victoria is –0.01 per cent. Its contribution to the relative GRP results, though, is generally small, reflecting its fairly uniform distribution across the regions.
3. *The impact on the TCF industry is likely to be greater in Victoria than in any other State. Some understanding of this can best be gained by showing the industrial contributions to the change in each region's real value added relative to the change in the state's real value added.*
 - See Table A7 and the comments above.
4. *AUSFTA will have a major economic and employment impact on the Victorian chemical and plastics industry*
 - Table A8 show absolute ('000 persons) deviations in industry employment by region in Victoria in the long-run year. According to these estimates, nearly 100 full and part-time jobs will be lost from the Chemicals industry in Victoria. These job losses will be concentrated in Melbourne (around 80 jobs lost), with the remainder coming mainly from the Barwon region.
5. *The level of employment in the Victorian automotive industry will be affected by the AUSFTA*
 - According to Table A8, over 1,100 full and part-time jobs will be lost from the Motor Vehicles and parts industry in the long-run year. Of this, around 800 will come from Melbourne and almost 200 from the Barwon region.
6. *The overall economic impact of AUSFTA on the automotive industry in Victoria will be significant*
 - Table A7 shows that in the long-run year, output in the Victorian Motor Vehicles and parts industry will fall relative to its baseline value by 1.12 per cent. Table A8 shows a fall in employment in the long-run year of over 1,100 full and part-time jobs.
7. *The Victorian dairy industry will receive a major economic boost as a result of AUSFTA*

- Output in the Victorian dairy products industry is projected to increase by nearly 2 per cent relative to its baseline value in the long-run year (Table A7), while raw milk production is expected to increase by the same percentage amount. Table A8 shows that an additional 500 people will be employed in the raw milk industry in Victoria in 2020, and an additional 120 people will be employed in the dairy products industry. ;
8. *The economic and employment impact of AUSFTA on the dairy industry will be greater for Victoria than for the other States;*
- This hypothesis is based, I think, on the idea that the Victorian dairy industry is more export-oriented than the dairy industries in other states. This fact is not accounted for in our modelling, which assumes that the dairy industry in each state responds in an equi-proportionate way to the FTA. Note, though, that Table A3 shows that exports of dairy products in the long-run year will increase by nearly 270 per cent relative to its basecase level in the long-run year.
9. *Employment in the food processing industry in Victoria will increase as a result of AUSFTA.*
- Table A9 gives the employment consequences of the FTA for Victorian food processing industries, namely, Meat, VegOils, DairyProds, Sugar, Foodnec and Drinks. The aggregate change in employment for this group in the long-run year is 370 persons.
10. *The impact of AUSFTA on the food processing industry will be unevenly spread over the 12 Victorian regions.*
- There is little evidence in support of this hypothesis.

ATTACHMENT B

IMPACT OF THE PROPOSED AGREEMENT ON VICTORIAN AGRICULTURAL AND MANUFACTURING SECTORS: PRELIMINARY ANALYSIS

AGRICULTURE

Dairy: we would expect the AUSFTA to provide new market opportunities for Victorian dairy processors and producers in the US market. While these opportunities are welcome, we note that the predicted value of export gains to Australia (\$55m in Year 1) are small relative to overall dairy exports (some \$2 billion per annum). We also note that any increase in exports to the US would likely be filled by shifting exports from lower priced markets until production is increased.

Beef: the US is the biggest export destination for Victorian beef products, and particularly as a market for manufacturing beef sourced from the dairy industry. We would expect the AUSFTA to give continuity and a minor boost to this important market.

Lamb: in the medium term, we would expect the AUSFTA to deliver a further important boost to Victorian lamb exports. However, short-term growth may be constrained by the need to rebuild flocks that have been affected by drought.

Horticulture: elimination of tariffs at entry into force should bring minor benefits to the fresh orange trade. However, long phase-out periods and safeguard provisions mean that the AUSFTA is not expected to generate any new market opportunities for the canned fruit industry in the short to medium term.

Wool: the economic significance of tariff reductions is not clear at this point, but the impact will be gradual.

MANUFACTURED GOODS

Industry Sector	Export Opportunities	US Import Competition	Likely Net Impact
Automotive	Medium– niche automotive vehicles and parts.	Medium – automotive vehicles and parts.	Negative long-term impact
Textiles, Clothing, Footwear	Low – given adoption of US 'yarn forward' rule and exclusion of defence procurement from AUSFTA.	Low	No real change
Plastics & Chemicals	Very low – some niche products.	Medium	Negative
Metals & Minerals	Low	Low	Low negative
Electronic Equipment	Low	Low	Positive
Shipbuilding & Repairs	Low – given minimal alteration to 'Jones Act.' Some opportunities in ship repairs given elimination of 50% tariff.	Low	No real change

