




Submission No 4

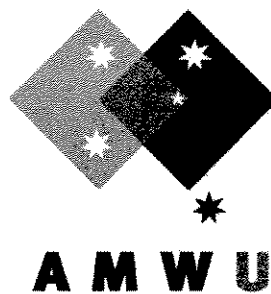
Australia's trade with Mexico and the Region

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**AUSTRALIAN MANUFACTURING
WORKERS' UNION**



**SUBMISSION TO THE
JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND
TRADE**

INQUIRY INTO TRADE WITH MEXICO AND REGION

NOVEMBER 2006

A. Introduction

1. The Australian Manufacturing Workers' Union (AMWU) welcomes the opportunity to make submissions to the Joint Standing Committee on Foreign Affairs, Defence and Trade (the Committee) concerning the Committee's inquiry into the Australia's Trade with Mexico and the Region.
2. The full name of the AMWU is the Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union. The AMWU represents approximately 130,000 workers in a broad range of sectors and occupations within Australia's manufacturing industry. The union has members in each of Australia's states and mainland territories.
3. As Australia's largest representative of manufacturing workers, the AMWU has an active interest in how Australia's trade relationship with Mexico impacts upon the employment of workers in Australia, particularly manufacturing workers.¹
4. As the AMWU will argue in this submission it is the union's view that trade between Australia and other nations, including Mexico, should be conducted on fair trade principles. This means a trade relationship that encourages trade and respects internationally recognised labour standards and the environment. A trade relationship based on fair trade principles should respect the rights of workers and the community to decent work and decent living conditions.
5. The AMWU opposes the type of bilateral trade agreements that have been negotiated by the Howard Government. In particular, the AMWU took an active role in opposing the Australia – United States of America Free Trade Agreement (USFTA). The early experience of the USFTA suggests that the AMWU was right to voice its concerns in relation to that agreement. The AMWU notes that the Government is considering negotiating a similar bilateral agreement with Mexico. The AMWU opposes the negotiation of such an agreement.
6. This submission discusses a number of specific issues regarding Australia's trade relationship with Mexico, including:
 - Australia's Trade Relationship With Mexico
 - Labour Rights and Working Conditions in Mexico and Australia
 - The Flawed Strategy of Negotiating Bilateral Agreements and the USFTA
7. The AMWU urges caution in the Committee's consideration of Australia's trade relationship with Mexico. The AMWU would strongly oppose the Australian government pursuing a preferential bilateral free trade agreement with Mexico.

¹ The AMWU's submission has confined itself largely to a discussion of Australia's relationship with Mexico.

B. Australia's Trade Relationship With Mexico

8. Trade between Australia and Mexico accounts for a relatively small amount of the two nation's overall trading activities. Australia's merchandise trade with Mexico presently makes up approximately 0.6% of Australia's total merchandise trade with the rest of the world. This ranks Mexico 29th in terms of the size of Australia's merchandise trade relationship.²
9. As the table below illustrates, while there have been fluctuations in Australia's exports to Mexico in recent years, Australia has consistently had a merchandise trade deficit with Mexico.

Table One
Australia's Trade Balance With Mexico³

\$ millions	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007 (first 4 months)
Total exports	478	430	341	687	835	316
Total imports	521	572	603	776	938	385
Balance of Merchandise Trade	-42	-142	-262	-89	-102	-69

10. The AMWU notes that the narrowing in the trade deficit in 2004-2005 appears to have been primarily due to an unprecedented jump in the value of exports of coal from Australia to Mexico. Figures published by Department of Foreign Affairs and Trade (DFAT) show that in the calendar year 2004 exports of coal to Mexico were valued at \$A189.98 million. Exports of coal to Mexico rose to \$A518 million in calendar year 2005. As Table One shows however, this rise in exports was not enough to offset the value of Mexican imports into Australia.
11. The composition of merchandise Australia's trade with Mexico for the last calendar year is illustrated in Table Two and Table Three below. The figures are taken from DFAT's Composition of Trade Australia 2005.

² Information contained in Department of Foreign Affairs and Trade Country Profile - <http://www.dfat.gov.au/geo/fs/mexi.pdf>

³ ABS – International Trade in Goods and Services – 5368.0

Table Two
Principal Imports of Mexican Commodities Into Australia (2005)
\$ million

784	Vehicle Parts	92,606
699	Other base metal manuf.	84,903
764	Telecom. Equipment	81,868
752	Computers	66,098
872	Medical instruments	56,977
542	Medicaments	46,817
112	Alcoholic beverages	40,374
713	Combustion engines	39,616
781	Passenger vehicles	36,673
759	Computer parts	28,473
*74	General industrial mach.	19,466
*6	Manuf. Classed by material	16,699
778	Other elec. Mach.	15,868
874	Measuring instruments	15,381
762	Radio receivers	15,285
*77	Electrical mach. & appliances	14,842
*65	Textile yarn & fabrics	11,048
772	Elec. Circuits equip	10,670
*5	Chemicals & related products	10,420
696	Cutlery	9,391
884	Other optical	9,379
747	Taps, cocks, valves	8,825
763	Sound & video recorders	8,684
*05	Vegetables & Fruit	8,435
*89	Miscellaneous manuf. Articles	8,275
*7	Machinery & transport equip	8,074
899	Miscellaneous manuf. Articles	7,968
598	Misc. chemical products	7,419
895	Office supplies	6,494
*72	Industry specific mach.	6,468
775	Household equip	6,024
988	Confidential Items	5,884
*84	Clothing	5,379
744	Mechanical hand. Equip.	5,087
*2	Crude materials (excl. foods & fuels)	4,390
573	Vinyl chloride polymers	3,666
894	Toys, games, sporting	3,601
882	Photographic supplies	3,224
716	Rotating electric plant	2,647
679	Tubes, pipes of steel	1,096
533	Pigments & paints	751
515	Organo - inorganic comp	532
523	Metallic salts	319
562	Fertilizers	26
Other	Other	10,515


*Denotes "remainder category"

Table Three
Principle Exports of Australian Commodities Into Mexico (2005)
\$ million

321	Coal	518,006
12	Meat (excl bovine)	48,875
611	Leather	41,903
287	Other ores	30,192
1	Live animals	22,997
23	Butter	22,445
988	Confidential items	21,003
592	Starches & insulin	20,052
22	Milk & cream	12,322
11	Bovine meat f.c.f.	10,137
582	Plastic plate, sheet & film	8,723
	Machinery & transport	
*7	equip	8,471
*74	General industrial mach.	8,235
784	Vehicle Parts	7,768
684	Aluminium	7,234
728	Specialised machinery	5,148
751	Office Machines	4,881
268	Wool	4,430
*8	Miscellaneous manuf.	4,393
	Chemicals & related	
*5	products	3,733
*72	Industry specific machn.	3,357
	Professional & scientific	
*87	instr.	2,956
772	Elec. Circuits equip.	2,662
542	Medicaments	2,453
24	Cheese & curd	1,214
713	Combustion engines	258
971	Gold	0
Other	Other	5,738

12. As can be seen from Table Two and Table Three, Australia's merchandise trade relationship with Mexico is characterised by importing manufactured goods and exporting resources (particularly and most markedly coal) and agricultural commodities. In this way, Australia's trade relationship with Mexico is broadly reflective of Australia's trade relationship with the rest of the world, ie Australia relies heavily on exports of low value added primary products and imports of high value added manufactured goods.
13. The AMWU does not consider this to be a sustainable future for a modern developed economy. In this regard, see generally the State of Manufacturing Report 2006 prepared for the AMWU by the National Institute of Economic and Industry Research (a copy of the report can be downloaded on the AMWU's website at www.amwu.asn.au).⁴
14. Put simply, Australia cannot provide improved living standards if we continue to allow manufacturing to go off-shore and we become reliant on imported high value manufactured goods. Abandoning significant sectors of manufacturing and implementing industrial legislation to force down wages and conditions is a strategy doomed to failure.
15. In the mid eighties, policy makers, business, and unions committed to transforming the Australian economy to focus on the export of knowledge intensive, high value added goods and services. Over the past 10 years we have reverted to an economy greatly dependant upon primary product exports.
16. During the tenure of the current Minister for Industry, Tourism and Resources, output, employment and exports for manufacturing have all been weak despite strong economic growth for the broader economy. At the same time imports of manufactured goods have risen sharply:
- Between 2002/03 and 2005/06, manufacturing output has fallen by \$860 million (Industry Gross Value Added, Chain Volume Measures).
 - Manufacturing output shrank by 1.1% in 2004/05 and by 0.5% in 2005/06.
 - Since May 2001 the manufacturing sector has lost 40,200 jobs. That is the equivalent of 8,040 jobs every year Mr MacFarlane has been the responsible Minister or 154 manufacturing jobs per week of Mr MacFarlane's tenure.
 - Between 2001/02 and 2004/05 manufacturing exports actually fell by \$2.8 billion and manufacturing imports grew by \$22.3 billion.
 - Manufacturing's share of total business expenditure on research and development (BERD) has declined from 45.2% in 2000/01 to 40.8% in 2004/05.
17. The AMWU submits that any future adjustments to our trade relationship with Mexico does not cause further damage to Australia's manufacturing industries.
18. The AMWU notes from the above data that Australia's struggling automotive components sector already faces a significant trade imbalance with Mexico.

⁴ http://www.amwu.asn.au/images/state-of-manufacturing_0706.pdf

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19. The AMWU strongly submits that no free trade agreement with Mexico be entered into without a comprehensive socio - economic analysis of the likely national, regional and sectorial effects of such an agreement. Any economic analysis and / or modelling should specifically deal with the likely employment and wage effects of the agreement in sub-sectors of the manufacturing industry both on a national and regional basis.

 20. The AMWU strongly submits that no agreement should be entered into which further risks jobs or production in the manufacturing sector.

C. Labor Rights and Working Conditions in Mexico and Australia

21. Labour conditions and industrial relations laws in both Australia and Mexico are currently such that workers in Mexico and Australia can effectively be forced to compete on basic working conditions. The AMWU submits that all of Australia's trade relationships, including that with Mexico, should be underpinned by guarantees with respect to internationally recognised labour standards and decent work.

Labour Rights and Working Conditions in Mexico

22. Working conditions in Mexico are poor:

- The *daily* minimum wage in Mexico is less than \$US 4.40. This is not enough to provide a decent standard of living in Mexico.
- The legal working week is six eight hour days.
- Although it is prohibited by law, forced or compulsory labour still commonly takes place in agricultural and industrial sectors.
- Freedom of association and collective bargaining is frustrated by illegitimate collective agreements being secretly entered into between management and pro-management unions.⁵

23. In relation to the fourth dot point, Human Rights Watch has observed in its most recent country report:

Legitimate labor-organizing activity continues to be obstructed by collective bargaining agreements negotiated between management and pro-management unions. These agreements often fail to provide worker benefits beyond the minimums mandated by Mexican legislation, and workers sometimes only learn of the agreements when they grow discontented and attempt to organize independent unions. Workers who seek to form independent unions risk losing their jobs, as the government generally fails to protect them from retaliatory dismissals.⁶

24. In a similar vein, the US State Department has found:

Management in the maquila (in-bond export) sector and elsewhere sometimes used protection contracts to discourage workers from forming authentic unions at a company. Such contracts were collective bargaining agreements negotiated by management and a representative of a so-called labor organization without the knowledge of the workforce, sometimes even prior to hiring a single worker in a new factory.⁷

⁵ US State Department's 2005 Country Reports on Human Rights Practices - <http://www.state.gov/g/drl/rls/hrrpt/2005/62736.htm>

⁶ Human Rights Watch Word Report 2006 – Country Summary - Mexico - <http://hrw.org/wr2k6/>

⁷ US State Department's 2005 Country Reports on Human Rights Practices - <http://www.state.gov/g/drl/rls/hrrpt/2005/62736.htm>

Labour Rights and Working Conditions in Australia

25. As Committee members would be aware, the amendments brought about by the *Workplace Relations Amendment (Work Choices) Act 2005* have significantly reduced the rights of Australian workers.
26. Given the extensive community discussion of this issue it is not the AMWU's intention to here canvass the vast reduction in rights for Australian workers wrought by "Work Choices". A summary can be provided if it would assist the Committee.
27. In passing however, the AMWU does wish to note that there are clearly interesting parallels to be drawn with respect to Australia and Mexico in so far as employer greenfields "agreements" under the *Workplace Relations Act 1996*, could easily be subject to the very same criticism as those made by Human Rights Watch and the US Department of State in relation to freedom of association and collective bargaining in Mexico. In particular, the *Workplace Relations Act 1996* now allows for employer greenfields agreements to be made without any union or employee involvement. These "agreements" are able to undercut national industry standards contained in awards and may contain only minimums mandated by legislation. Workers whose employer's businesses employ less than 100 employees can be legally sacked for asking for better conditions.
28. The AMWU submits it is important to observe that the historically significant redistribution of power away from working people and to employers is being accompanied with falling real wages in Australia. Average earnings in the year to September 2006 dropped in real terms by 1.2%. These falls come despite other economic conditions usually associated with rising real wages: consistent economic growth, favourable terms of trade, low unemployment, and skills shortages.
29. There is no denying that under "Work Choices" Australian workers are more vulnerable. And it would appear that this vulnerability is directly affecting wage outcomes. Australian workers are now in a position where they can, and are, being made to compete on basic working conditions with each other and workers from other nations.
30. Workers in Australia and Mexico, or any other nation, should not be forced to compete on labour rights or decent working conditions.
31. The AMWU submits that Australia's trade relationship with Mexico, and other nations, should be recast to ensure that all countries respect internationally recognised labour standards and guarantee decent work. This is a major part of what the AMWU means by "fair trade".
32. The AMWU is strongly of the view that Australia's trade relationship with the rest of the world should be premised on fair trade not free trade.

D. The Flawed Strategy of Negotiating Bilateral Agreements and the Australia – United States Free Trade Agreement

33. The AMWU again notes that the Government is considering negotiating a bilateral free trade agreement with Mexico. There is however, a widespread view that the economic strategy of negotiating bilateral trade agreements is not in Australia's national interest. For example, the Productivity Commission has twice questioned the economic utility of bilateral agreements. Once in its Staff Working paper "The Trade and Investment Effects of Preferential Trading Arrangements - Old and New Evidence"⁸ and in its 2003 Annual Report⁹.
34. While the AMWU believes the current multilateral trading system conducted under the auspices of the World Trade Organisation is in serious need of reform (particularly although not limited to the urgent need for inclusion of labour standards in trade agreements), the AMWU submits that Australia must focus its efforts on achieving multilateral trade outcomes.
35. Multilateral trade agreements have considerable advantages including that:
- The economic benefits of such agreements are available to both industrialised and developing countries.
 - The proliferation of bilateral trade agreements leads to different rules of origin and associated complexity and other costs for exporters.
 - There is a significant risk of trade diversion associated with bilateral preferential trade agreements.
 - Smaller countries are able to aggregate their bargaining power to negotiate on a more equal basis with major economies than in bilateral agreements.
 - Multilateral negotiations are more appropriate for Australia given our diverse patterns of trade, with major export markets in Asia, Europe, the Middle East and North America.¹⁰
36. The AMWU submits Australia's long term interests are likely to be better served if the Government was to put greater effort into reforming and reinvigorating the multilateral trading system rather than pursuing a series of bilateral preferential free trade agreements.

Australia – United States Free Trade Agreement

37. The Australia – United States Free Trade Agreement is a good example of why all Australians should beware the false promise of bilateral free trade agreements.

⁸Adams R, Dee P, Gali J and McGuire G, "The Trade and Investment Effects of Preferential Trading Arrangements - Old and New Evidence", Productivity Commission Staff Working Paper, Canberra, May 2003.

⁹Productivity Commission Annual Report 2002-2003, page 14.

¹⁰Australian Council of Trade Unions, Submission to the Senate Select Committee Inquiry into the Australia - United States of America Free Trade Agreement. A copy of the submission can be found at the Senate Select Committee's website at: http://www.aph.gov.au/Senate/committee/freetrade_ctte/submissions/sublist.htm.

38. In 2004, the Howard Government sold the USFTA to the Australian people on the basis that it was a once in a life time opportunity. Australia was said to be in line for billions of dollars of benefits from entering the agreement. A significant part of the gains were said to come from an expansion in US investment in Australia.

39. In reality the early experience of the USFTA has been that:

- **Australian exports to the United States fell.** Australian exports for the financial year 2003-2004 were \$9,481 million while exports for the financial year 2004-2005 were \$9,461 million. The fall in exports occurred in the same months the USFTA commenced. Exports have subsequently recovered to above 2004 levels however, not enough to cover the much greater rise in imports from the United States.¹¹
- **Australia's trade deficit with the United States has grown.** Australia's merchandise trade deficit with the United States was \$10,448 million in 2003-2004, \$11,810 million in 2004-2005 and \$12,986 million for 2005-2006. The Australian Bureau of Statistics figures for the first four months of financial year 2006-2007 show the trade deficit is further increasing on last years result. The figures relating to the 4 months ended October 2006 show a deficit of \$5,049 million while the figures for the 4 months ended October 2005 showed a deficit of \$4,146 million.¹²
- **United States investment in Australia has fallen.** As the *Australian Financial Review* reported in August of this year:

According to annual foreign investment figures for the 2005 calendar year, which coincide with the first year of operation of the US-Australia free trade agreement, US foreign investment into Australia fell from \$360 billion in 2004 to \$325.3 billion the following year.

US foreign investment into Australia was tipped to soar under the FTA, which relaxed the Foreign Investment Review Board's controls over such approaches¹³

- **Australia may soon have new unfair copyright laws.** Changes to copyright laws the Government is proposing to bring Australia into conformity with the USFTA are unpopular and unfair.
- **Blood donation safety standards put at risk.** Concerns have been raised in the Australian Medical Journal and elsewhere about the agreement leading to Australia's plasma fractionation arrangements being opened up to overseas tender.¹⁴ Such a change is said to increase the risk of blood donation safety standards being compromised.

¹¹ Australian Bureau of Statistics, International Trade in Goods and Services – 5368.0.

¹² Australian Bureau of Statistics, International Trade in Goods and Services – 5368.0.

¹³ Sutherland T, "America Invests Less Despite FTA", Financial Review, 11 August 2006.

¹⁴ Bambrick H, Faunce T, Johnston K, "Potential Impact of AUSFTA on Australia's Blood Supply", Medical Journal of Australia, July 2006.



E. Conclusion

40. Australia's trade policy appears to be stuck in a paradigm where poor policy and outcomes are hidden behind a façade of "free trade". Often those who do not support the types of policies being described as "free trade" have been wrongly described, or dismissed, as "protectionist".
41. The AMWU submits that it is time to move beyond rhetoric about "free trade versus protectionism". Trade can and should be a great economic and social benefit to economies and working people. However, trade must be underpinned by basic notions of fairness. It must not undermine internationally recognised labour standards or the environment. Importantly, in the context of Australia's recent experience, the pursuit of trade agreements must not become an end in itself.
42. The AMWU urges caution in the Committee's consideration of Australia's trade relationship with Mexico.
43. The AMWU would strongly oppose Australia entering a free trade agreement with Mexico that was based on the type of models used in the Australia – Singapore; Australia – Thailand; or Australia – United States of America Free Trade Agreements.