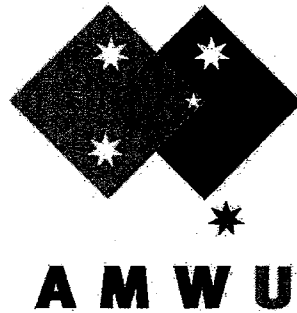


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# **AUSTRALIAN MANUFACTURING WORKERS' UNION**



**SUBMISSION TO THE  
JOINT STANDING COMMITTEE ON TREATIES  
THE PROPOSED AUSTRALIA - THAILAND  
FREE TRADE AGREEMENT**

**JUNE 2004**

## **Introduction**

The Australian Manufacturing Workers' Union (AMWU) welcomes the opportunity to make submissions to the inquiry of the Joint Standing Committee on Treaties (the Committee) into the Australia - Thailand Free Trade Agreement (ATFTA).

The full name of the AMWU is the Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union. The AMWU represents approximately 145,000 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 territories.

For many years the AMWU has continued to be an important voice for working people in debates concerning trade policy. The AMWU has consistently argued for fair trade rather than free trade. The AMWU opposes Australia entering the proposed ATFTA.

This submission identifies a number of reasons why the AMWU submits Australia should not enter the proposed ATFTA. The reasons include:

- The Serious Inadequacy of the Consultation and Review Process
- Potential Effects On Manufacturing and Australia's Trade Balance
- The Failure to Protect Core Labour Standards
- The Inadequacy of the Rules of Origin
- The Flawed Strategy of Negotiating Bilateral Agreements

The AMWU concludes by urging the Committee to recommend that Australia should not enter the proposed ATFTA.

## **The Serious Inadequacy of the Consultation and Review Process**

### **The Consultation Process**

The AMWU strongly submits that the consultation process for the ATFTA was inadequate. No non-business community organisations or unions appear to have been consulted on the contents of the agreement. Despite representing the interests of tens of thousands of members in the automotive sector - one of the most sensitive sectors dealt with in the agreement - the AMWU was not approached in relation to the proposed reductions of assistance to the automotive sector.

Trade agreements can have a serious impact on workers and the community more generally. Workers' representatives and non-business NGOs should not be left out of processes that lead to the negotiation of trade agreements.

The AMWU urges the inquiry to recommend that unions and other non-business groups in civil society be given a greater role in the negotiation of trade agreements.

### **The Review and Assessment of the Likely Effects of the Agreement**

The AMWU submits that the Government's examination and assessment of the likely effects of the ATFTA is inadequate. The AMWU particularly notes that the Government is proposing to enter a trade agreement with no detailed economic analysis of the likely effects of the agreement. Similarly, the Government has produced no social or environmental analysis of the agreement.

### ***The CIE Modelling***

Aside from a few pages in the Regulation Impact Statement, the Government's only publicly available economic analysis of the agreement is contained in the Centre For International Economics Report "Australia - Thailand Free Trade Agreement: Economic Effects" (the CIE report). The CIE report is both flawed and incomplete.

### ***Problems and Omissions in the CIE Report***

The most obvious problem with the CIE report is that there has been no attempt to measure the effect on individual industry sectors. The economic modelling used by the Centre for International Economics (CIE) reduces the economy to six sectors: energy; mining; agriculture; durable manufacturing; non-durable manufacturing; and services. This is a massive simplification of the economy. The CIE's approach in relation to the ATFTA can be contrasted with other CIE reports (for instance that commissioned for the Australian - United States Free Trade Agreement) which, while seriously flawed, have at least *attempted* to estimate the effects on individual industries.

The reliance upon a six sector model in the CIE report means that there is no publicly available economic estimate of the likely effect of the agreement on any sector of the manufacturing industry including: food, beverage and tobacco; textile, clothing, footwear and leather; wood and paper products; printing, publishing and recorded media; metal products; or machinery and equipment - let alone the strategic, sensitive and / or vulnerable subsectors within those industries.

The CIE report contains no analysis of the likely effect of the agreement by state or by region.

The CIE report contains no analysis of the likely effect on wages and/or employment in Australia or in Thailand.

Unlike previous CIE reports many of the assumptions upon which the modelling relies have not been included in the report. These assumptions presumably include the type of unrealistic neo-classical assumptions which are made in other CIE reports including: perfect competition; identical consumer behaviour; equal wages for all industries; and full employment.<sup>1</sup>

The CIE Report provides little discussion of the critical question of which elasticities have been used in the modelling exercise or why the elasticities used can be said to have produced an accurate estimation of what will happen to the level of imports and exports under the agreement.

The AMWU submits that the effect of the massive oversimplification of the economy in the modelling means that the CIE's prediction of a very small *rise* in welfare is so rough an estimate as to be of little or no real value in a public policy context.

The AMWU urges the Committee to recommend that the agreement not be entered into on the basis that there has been no detailed independent economic assessment of the likely impact of the agreement on industries, states, regions, employment or wages.

The AMWU urges the Committee to recommend that the whole process of entering into trade agreements be overhauled. The AMWU submits that bilateral trade agreements should be subject to the three stage process outlined on the following page.

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<sup>1</sup>For example see the discussion of the assumption relied upon in the G-Cubed Model in appendix B of the CIE report prepared for the Department of Foreign Affairs and Trade entitled "Economic Analysis of AUSFTA: Impact of the bilateral free trade agreement with the United States", April 2004.

## **AMWU Proposed Procedures For the Review of Trade Agreements**

### **Stage One**

The Parliament in both Houses should determine whether to grant negotiating authority for a trade treaty and the terms and conditions under which such authority is granted.

### **Stage Two**

Studies should be undertaken to determine the costs and benefits of any proposals that may be negotiated. These potential costs and benefits should be estimated at a national, state and regional level. The cost and benefit analysis should also extend to industry-subsectors.

The effects should be measured through social and economic audits.

The studies must draw on a wide range of expertise and not just the neo-liberal supporters of free trade.

The studies must assess the impact on the capacity of Australia to take future interventions for the benefit of society, the economy and our national independence.

### *Parliamentary Trade Agreement Committee*

To give effect to stage two of this process an appropriate and representative infrastructure for consultations and oversight and negotiation of trade treaties should be put in place known as the Parliamentary Trade Agreement Committee (PTAC).

This committee should have the responsibility of commissioning multi-disciplinary research from a wide range of sources on the consequences of various trade treaty options and assessing the costs and benefits of any trade treaty sent to the Parliament for ratification.

It should also be the function of the PTAC to produce an agreed statement at the commencement of any trade treaty negotiation which contains Australia's objectives for the trade negotiations. That statement should indicate in what areas the government will seek to negotiate and what areas are non-negotiable.

### **Stage Three**

After the terms of the trade agreement have been negotiated the Parliament must have the power to either accept or reject the agreement.

It is the AMWU's view that no trade agreement should be entered into until legislation for this three stage process is introduced and passed by the Parliament.

The AMWU notes that the above process overlaps with many of the recommendations made in the Senate Foreign Affairs, Defence and Trade References Committee's report "Voting on Trade: The General Agreement on Trade in Services and an Australia US - Free Trade Agreement" published in November of last year. The AMWU commends the Senate Committee's report for the current inquiry's consideration.

## Potential Effects On Manufacturing and Australia's Trade Balance

### *Potential Effects on Manufacturing*

As the CIE Report notes, Australia's imports from Thailand are dominated by manufactured goods whereas Australia exports to Thailand are dominated by primary products and basic metals.<sup>2</sup> While Thailand has a large global trade surplus in elaborately transformed manufactures,<sup>3</sup> Australia has a global trade deficit in elaborately transformed manufactures.

Given the extent and timing of tariff reductions in the ATFTA, it would appear that the agreement is likely to exacerbate the trend of Australia importing elaborately transformed manufactures and exporting primary products. The AMWU believes therefore that the ATFTA will contribute to the deindustrialisation or "pastoralisation" of the Australian economy. As the National Institute of Economics and Industry Research (NIEIR) has stated in its study of the Australia - United States Free Trade Agreement:

"While Australia's overall rate of economic growth may still be satisfactory under a policy of pastoralisation, the consequences in terms of the supply of quality employment opportunities, the ability to retain the most skilled young, taxation policies, the concentration of economic power, worsening of income and wealth inequalities, etc. run the risk of the country steadily becoming more ungovernable as time goes by."<sup>4</sup>

Manufacturing is a key industry in any developed economy because of its strong inter-industry links and technology spillovers. The future of the manufacturing industry in Australia is critically important to the prospects of Australia and Australian workers in the 21st century. The AMWU submits the tariff reductions in the ATFTA will hurt Australian manufacturing.

The AMWU is particularly concerned about the impact of the ATFTA on the auto components industry in Australia. The AMWU notes the Regulation Impact Statement observation that:

"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."

The windscreen manufacturer Pilkington, has already announced the reduction of its workforce because of the loss of a 70 year old contract with Holden. The contract was lost due to increased import competition arising out of the Australia - Thailand free trade agreement.<sup>5</sup>

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<sup>2</sup>CIE Report at page 4.

<sup>3</sup>Regulatory Impact Statement at page 6.

<sup>4</sup>National Institute of Economic and Industry Research, "An assessment of the direct impact of the Australian - United States Free Trade Agreement on Australian trade, economic activity and the costs of the loss of national sovereignty", May 2004 at page 8. A copy of the report can be supplied upon request.

<sup>5</sup>Bachelard M, "Holden Dumps Its Aussie Glass Firm", *The Australian*, 12 February 2004 page 4.

With Mitsubishi scaling back its production in Australia, a strong Australian dollar and potential immediate tariff reductions in the proposed United States - Australia Free Trade Agreement - unless this Committee can put the brakes on the Government's drive for hasty bilateral free trade agreements - the Australian auto component sector appears likely to be the next Australian industry to fall victim to what is becoming a pattern of ill considered trade and industry policy decisions.

The AMWU urges the Committee to recommend that Australia not enter the proposed ATFTA on the basis that the agreement is likely to harm manufacturing in Australia.

The AMWU urges the Committee to recommend that Australia not enter the proposed ATFTA on the basis that there is no independent study made of the likely consequences of the Agreement on any Australian industry.

### *Australia's Trade Balance*

In 2003 Australia had a merchandise trade deficit with Thailand of \$1,342 million.<sup>6</sup> The AMWU notes that even according to the CIE Report (which the Government is using to support the agreement), both Australia's trade deficit with Thailand and Australia's overall trade deficit will rise as a result of the entering the proposed agreement.<sup>7</sup>

The AMWU urges the Committee to recommend that Australia not enter the proposed ATFTA on the basis that the agreement will further damage Australia's trade balance.

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<sup>6</sup>For general information about the trading relationship see the Department of Foreign Affairs and Trade fact sheet on Thailand at <http://www.dfat.gov.au/geo/fs/thai.pdf>.

<sup>7</sup>CIE Report at page 20.



## The Failure to Protect Core Labour Standards

The AMWU submits that Australia should not enter trade agreements that do not guarantee that all parties subject to the agreement must observe the core labour standards contained in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. These standards include:

- the right of workers and employers to freedom of association and the effective right to collective bargaining (conventions 87 and 98);
- the elimination of all forms of forced or compulsory labour (conventions 29 and 105);
- the effective abolition of child labour (conventions 138 and 182); and
- the elimination of discrimination in respect of employment and occupation (conventions 100 and 111).

A failure to include a chapter on enforceable core labour standards is particularly damaging in a free trade agreement with Thailand. The AMWU notes that Thailand has not ratified three of the eight ILO conventions containing core labour standards including the ILO conventions relating to freedom of association and the right to collective bargaining.

This failure to commit to ILO core labour standards must be seen in the context of the Thai workforce where:

- Wages and conditions are generally low for most workers.
- Collective bargaining is uncommon. Wage increases for the majority of workers come from rises in the minimum wage rather than through collective bargaining.<sup>8</sup>
- Minimum wages are set by provincial committees that sometimes include only employer representatives. In 2003 the minimum wage ranged from (133 baht to 168 baht) per day. This equates to around \$A4.60 to \$A5.80 per day.<sup>9</sup>
- The low minimum wages are themselves poorly enforced. As a consequence, around one third of the formal sector workers receive less than the minimum wage.<sup>10</sup>
- Migrant workers generally receive less than the minimum wage.<sup>11</sup>

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<sup>8</sup>Bureau of Democracy, Human Rights and Labour, "Country Reports on Human Rights Practices 2003: Thailand" at page 14. The Bureau is part of the US Department of State. A copy of the report can be downloaded at [www.state.gov/g/drl/rls/hrrpt/2003/27790.htm](http://www.state.gov/g/drl/rls/hrrpt/2003/27790.htm)

<sup>9</sup>Assuming an exchange rate of around 29 Baht to one Australian dollar.

<sup>10</sup>Bureau of Democracy, Human Rights and Labour, pages 13-14.

<sup>11</sup>Ibid.

- All members of a union executive must be full-time workers in an enterprise. This means that to undertake trade union work, officials of a union must negotiate leave of absence with their employer.<sup>12</sup>
- Civil servants cannot join trade unions and are prohibited from taking strike action.<sup>13</sup>
- Workers can have their employment legally terminated for any reason subject to the provision of severance pay.<sup>14</sup>
- Workers who try to form unions in Thailand are frequently dismissed. For example, in 2002 a joint venture called Auto Alliance (Ford Motor Co. and Mazda Motor Corp) suspended and/or fired union leaders who instigated a ban on overtime. Only after strong international pressure from the International Metalworkers' Federation and its affiliates were the unionists reinstated.<sup>15</sup>
- Although the Thai constitution prohibits forced and bonded labour the Government has not enforced this prohibition in the informal sector. There are reports of sweatshops where workers (primarily foreign migrants) are prevented from leaving the premises.<sup>16</sup>
- Two to four percent of children between the age of 6 and 14 years old work illegally in urban areas.<sup>17</sup>
- Although the Thai Ministry of Labour provides health and safety regulations, the regulations are poorly enforced.<sup>18</sup>
- There is no law protecting employees who refuse to do dangerous work. The redress for workers injured in industrial accidents is not timely or sufficient.<sup>19</sup>
- Hundreds of thousands of women and children are trafficked for a variety of purposes including indentured servitude, forced labour and prostitution.<sup>20</sup>

Without the proposed agreement containing provisions which provide guarantees for both Australian and Thai workers there is a significant danger that multinational companies will be further empowered to force workers into competing with one another by trading off the most basic of working conditions. The AMWU submits that this is not a form of globalisation that Australian Parliamentarians should support.

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<sup>12</sup>International Confederation of Free Trade Unions (ICFTU), "Report for the WTO General Council Review of the Trade Policies of Thailand", Geneva, 2003 at page 2.

<sup>13</sup>ICFTU, at page 3.

<sup>14</sup>ICFTU at page 2.

<sup>15</sup>ICFTU at page 3.

<sup>16</sup>Bureau of Democracy, Human Rights and Labour, at page 14.

<sup>17</sup>Ibid at page 14.

<sup>18</sup>Ibid at page 15

<sup>19</sup>Ibid at page 16.

<sup>20</sup>Ibid at page 16.

The AMWU submits that Australia should not grant preferential market access to nations who do not enforce core labour standards.

The AMWU urges the Committee to recommend that the Australian government not enter the proposed agreement on the basis that the agreement does not contain clauses which guarantee the observance of core labour standards.

## The Inadequacy of the Rules of Origin

The AMWU submits that the rules of origin in the ATFTA are insufficient to ensure that only products which are substantially produced in Australia or Thailand obtain concessional treatment under the agreement.

The AMWU is concerned that the rules of origin provisions in the proposed agreement will in effect allow concessional access to be granted to products for which a significant proportion of their manufacture took place in a third country that has:

- not granted reciprocal access; and/or
- a very low commitment to labour and environmental standards.

The AMWU notes the reliance on the change in tariff approach used in the proposed agreement incorporates a significant element of arbitrariness into the tariff treatment of many products. The arbitrariness arises in part because the Harmonised System was not designed for the identification of origin but for the presentation of trade statistics. As the Productivity Commission has noted when recommending against a proposal to change the rules of origin under the Australia - New Zealand CER Trade Agreement to a tariff classification approach, "the extent of transformation involved in a change in tariff classification would vary between classification levels and between categories at each level".<sup>21</sup> Merely because a good may have changed (or may have not changed) tariff classification in a country does not mean that a product was (or was not) substantially produced in that country.

The AMWU is not satisfied that the additional requirements attached to some products will be sufficient to remedy this problem. Regional content value requirements of between 40 and 45% would appear to be inadequate. Why should a product with undergoes 60% of its manufacture in another country be considered to be a product manufactured in Thailand?

The AMWU also questions why the rules of origin in relation to the automotive sector are more lax in the proposed ATFTA agreement than in the North American Free Trade Agreement. In the North American Free Trade Agreement, rules of origin originally required a regional content value of 50% however, this has since risen to 62.5% for automobiles, light trucks, engines and transmissions (and 60% for other automotive products).

The Productivity Commission reports that average local content in Australian produced vehicles is around 75%. Why then did the Trade Minister agree to such a low rule of origin for passenger motor vehicles?<sup>22</sup>

The AMWU urges the Committee to recommend that the Australian government not enter the proposed ATFTA on the basis that the rules of origin in the agreement do not protect the integrity of the agreement and are not in the national interest.

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<sup>21</sup>Productivity Commission, Rules of Origin under the Australia - New Zealand CER Trade Agreement, Interim Research Report, Canberra at page 133.

<sup>22</sup>Productivity Commission 2002, Review of Automotive Assistance, Report No. 25, Canberra.

## The Flawed Strategy of Negotiating Bilateral Agreements

The AMWU notes that there is a rapidly increasing body of research that suggests the strategy of negotiating bilateral trade agreement 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"<sup>23</sup> and most recently in its 2003 Annual Report<sup>24</sup>.

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.

As the ACTU has recently observed in its submissions to the Senate Select Committee Inquiry Into the Australia - United States Of America Free Trade Agreement, 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 due to bilateral preferential trade agreements. This has been highlighted by the recent Productivity Commission evaluation of around 17 bilateral agreements.
- The advantage of multilateral negotiations is that smaller countries are able to aggregate their bargaining power to negotiate on a more equal basis with major economies.
- 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.<sup>25</sup>

The AMWU submits Australia's interests would be better served if the Government focused on reforming and reinvigorating the multilateral trading system.

The AMWU urges the Committee to recommend that the ATFTA not be entered into on the basis that the strategy of negotiating bilateral trade agreements is flawed and not in Australia's strategic global trading interests.

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<sup>23</sup>Adams 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.

<sup>24</sup>Productivity Commission Annual Report 2002-2003, page 14.

<sup>25</sup>Australian 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/fretrade\\_ctte/submissions/sublist.htm](http://www.aph.gov.au/Senate/committee/fretrade_ctte/submissions/sublist.htm).

## **Conclusion**

The AMWU submits that each of the problems the union has identified in this submission justifies the Australian government not taking action to enter the proposed ATFTA.

The AMWU submits that the government has an obligation to show that a trade agreement will deliver more economic, social and/or environmental benefits to Australia than economic, social and/or environmental costs. The government has failed to meet this most basic of national interest tests.

The AMWU strongly urges the Committee to recommend that Australia should not enter the proposed ATFTA.