



15<sup>th</sup> April, 2009.

Committee Secretary  
Joint Standing Committee on Treaties

Via email : [jsct@aph.gov.au](mailto:jsct@aph.gov.au)

Dear Secretary,

Please find attached the submission of the Australian Manufacturing Workers' Union (AMWU) on the Asean / Australia / New Zealand Free Trade Agreement.

As noted in the AMWU submission, we are also supporting the submission of the Australian Fair Trade and Investment Network (AFTINET) of which the AMWU is a member.

Should you or your committee require any further information from the AMWU, please contact me as per the contact information below.

Yours sincerely,

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**AMWU SUBMISSION TO  
THE JOINT STANDING COMMITTEE ON TREATIES:  
THE ASEAN / AUSTRALIA / NEW ZEALAND  
FREE TRADE AGREEMENT (AANZFTA)**

**April 2009**

The Australian Manufacturing Workers' Union (AMWU) has been involved in this and other FTA discussions / inquiries for several decades now.

We support the thrust of the submission to JSCOT made by AFTINET. The Australian Fair Trade and Investment Network represents seventy organisations including the AMWU.

In addition to the AFTINET Submission the AMWU would make the following seven points about the fundamental problems of AANZFTA and why the proposed Treaty is not in Australia's national interest.

1. There is no compelling case that the economic benefits of the FTA exceed the economic costs. The econometric analysis relied on to quantify "net benefits" is nine years old and does not hold up under careful scrutiny.

The Regulation Impact Statement relies on the econometric analysis by the Centre for International Economics (CIE) in 2000, to justify the argument that AANZFTA would provide national economic benefits to Australia.

The AMWU, in April 2007, produced a report criticising the methodology of CIE modelling of FTAs and explaining why its results could not be construed as providing the quantitative evidence required to satisfy a national interest test. That critique was undertaken by Dr Jim Stanford whose PhD thesis was undertaken on the subject of econometric modelling of FTAs. As Dr Stanford points out, the CIE model like other computable general equilibrium models (CGE) is fundamentally flawed with its assumptions pre determining the outcomes and its fundamental parameters based on abstract theory rather than concrete empirical estimates that can be found in more basic input-output analysis.

*"The extreme and unrealistic assumptions in neoclassical CGE models mean that their predictions cannot in any way be interpreted as evidence."*<sup>1</sup>

The AMWU draws the attention of the participants in the JSCOT process to the fundamental flaws in the CIE modelling highlighted in that AMWU report.

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<sup>1</sup> J. Stanford and P. Conroy: The Potential employment Impacts of an Australia-China Free Trade Agreement: April 2007, pg. 30.

2. Paragraph 21 of the National Interest Assessment suggests that, over the four years of the Forward Estimates, Australia will lose almost \$1 billion in tariff revenue as a result of the AANZFTA.

The AMWU submits that, since estimates of the four year projected cumulative budget balance have gone from plus \$80 billion (May 2008 Budget) to minus \$120 billion (UEFA Treasury, February 2009), and are likely to deteriorate further (in the May 12 budget) it is not in the national interest to forgo an additional \$1 billion in customs duty as a result of ratifying AANZFTA.

Two Hundred and fifty million dollars per annum (which is what we save by not ratifying this FTA) funds the Cutler Reviews recommendation to move Australia to an R&D tax credit system (including the 50% refundable tax credit scheme for SME's with sales of less than \$ 50 million), and leaves many millions of dollars left over to ensure Australia has an effective and efficient trade and industry development policy to secure more high wage high skill jobs for the second decade of the 21<sup>st</sup> century.

Simply put, the opportunity cost of this FTA is excessive and does not remotely satisfy the basic requirements of a proper national interest test.

3. Paragraphs 55 to 59 of the Regulation Impact Statement seriously underestimates the costs and consequences of yet another layer of complexity from rules of origin required for preferential tariff treatment under AANZFTA.

Ross Garnaut, amongst others, has highlighted the negative consequences of complex distorting rules of origin within FTAs<sup>2</sup>. The costs are born by exporters, consumers and ultimately the entire world economy via the problems they create for a single properly functioning multilateral trading system.

It is not in Australia's national interest to perpetuate the "spaghetti bowl" complexities inherent in hundreds of bilateral FTAs around the world with differing rules of origin. This is of particular concern to the AMWU since rules of origin complexity inevitably impact the most on manufacturing.

4. It is not in Australia's national interest to ratify a free trade agreement that requires "far more far sooner" in the reduction of tariffs from Australia relative to other treaty participants. Nor is it in Australia's interest to compromise the future interests of key strategically important industries like Australia's auto and components industry with an unbalanced FTA.

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<sup>2</sup> R. Garnaut : Australian, U.S. and China: Open Regionalism in an Era of Bilateral FTAs. Speech to AsiaLink March 22, 2005.

### Percentage of Tariff Lines with Tariff-Free Treatment

	<u>2005</u>	<u>2010</u>
Australia	47.6%	96.4%
Brunei	68%	75.7%
Burma	3.7%	3.6%
Cambodia	3.7%	4.7%
Indonesia	21.2%	58%
Laos	0	0
Malaysia	57.7%	67.7%
New Zealand	58.6%	84.7%
Philippines	3.9%	60.3%
Singapore	99.9%	100%
Thailand	7.1%	73%
Vietnam	29.3%	29%

Source: National Interest Analysis Table One, Para 13.

As highlighted in the table above, Australia is required to move more tariff lines to zero sooner than the majority of the other participants. Most of the impact will be felt in Australian manufacturing which, according to the Australian Bureau of Statistics (ABS 6291.0.55.003, Feb. 2009) has lost 58,300 jobs in the twelve months to February 2009.

While further tariff liberalisation occurs in ASEAN countries over the 2013-2025 period, the early and disproportionate exposure of Australian manufacturing to zero tariffs in the midst of the worst economic crisis since the great depression is unacceptable.

5. The AMWU strongly supports Section 8 of the AFTINET submissions concerning the movement of natural persons under Annex 4 of the AANZFTA.

In our submission it is not in the national interest to include in trade agreements arrangements for the movement in and out of Australia of temporary workers who may be vulnerable to exploitation.

It is also not in the national interest to directly or indirectly compromise Australia's sovereignty with respect to mechanisms such as 457 Visas and Australia's right to incorporate appropriate labour marketing testing regulations.

6. AANZFTA fails the national interest test both by what is included and excluded from the treaty in relation to the protection of the environment and labour rights as well as the right of Government to regulate investment in the public interest.

These points are well covered in the AFTINET submission which AMWU endorses.

It is still incomprehensible to the AMWU that a right wing U.S. Republican anti-union neo-liberal regime such as the 2000-2008 Bush Administration can

demand minimalist labour rights clauses in its FTAs while a social democratic Australian Labor Government refuses even minimalist measures on supporting core labour standards in its FTAs.

In this respect, it is not surprising that the Australian labour movement received complaints from the highest levels of the New Zealand labour movement about the fact that it was the Australian government, first and foremost, that opposed any engagement in AANZFTA on the labour rights issue.

7. Finally the AMWU argues that this FTA is not in the national interest because of the way it and other trade negotiations are diverting substantial time and effort from the significantly more important trade and industry development policies Australia should be pursuing to secure the future of its manufacturing industry in particular.

The statement below was issued by the AMWU in August 2008. It is as relevant to the argument about this diversion of time and resources to FTAs then during the negotiations as it is today after the negotiations.

It is the final nail in the coffin and reinforces our assessment that AANZFTA is not in the national interest

### **Have Tens of Thousands of Manufacturing Jobs Been Sacrificed on the Altar of Free Trade:**

### **AMWU STATEMENT ON PROPOSED ASEAN FTA AUGUST 2008**

The AMWU notes the announcement that Australia and New Zealand have concluded a Free Trade agreement with ASEAN.

We further note how incompetent the Coalition Government was in promoting trade in elaborately transformed manufactures (ETMs) between Australia and ASEAN.

<b>Australia's ETM Trade with ASEAN : \$Million</b>			
	<i>1997</i>	<i>2007</i>	<i>Change</i>
Exports	\$3,899	\$3,530	- \$369
Imports	\$5,124	\$14,629	+ \$9,505

In a decade, the Coalition managed to preside over an increase in Australia's ETM trade deficit with ASEAN from \$1.2 billion in 1997 to \$11.1 billion in 2007.

Our ETM exports to ASEAN, a market of 550 million people with a combined GDP of more than \$1.1 trillion, are actually less in 2007 than in 1997!!!

This trade relationship in ETMs represents tens of thousands of lost job opportunities for Australian manufacturing workers thanks to the Howard Government and its incompetent trade and industry development policies. No wonder economy wide productivity in Australia is 40% below the OECD average this decade compared to 40% above the OECD average in the 1990s.

We also note the track record of the previous Labor Government in promoting ETM exports to ASEAN.

In the decade to 1997, Australia's ETM exports to ASEAN increased by more than 600% from around \$550 million (1987) to \$3,899 million (1997).

These were the days when Australia had a real trade and industry development strategy. These were the days when ETM exports were actively supported rather than ignored by AUSTRADE and the Ministers for Industry and Trade.

However, the AMWU questions whether this new FTA with ASEAN will change the totally unacceptable ETM trade relationship that has existed with ASEAN for the past decade. We await answers from Minister Crean on six basic questions:

1. Has Minister Crean secured commitments to free up exports of Australia's motor vehicles to Thailand including the Ford Territory?
2. What bilateral taskforces on joint ETM trade relations have been established with ASEAN to promote balanced trade?
3. What arrangements have been made with Vietnam, a nation of nearly 90 million people with whom the Australian labour movement has a special relationship, to encourage mutually beneficial trade relationships in ETMs?
4. What ETM trade missions have been organised between the States and the Commonwealth and ETM exporters to regenerate our ETM export drive to ASEAN?
5. When will the Minister announce an inquiry into the future of the Australian Trade commission so that organisation can once again play a leading role in promoting ETM exports?
6. When will New Zealand and Australia release a joint statement itemising the week-by-week progress made during the negotiations in securing appropriate labour and environment clauses in the FTA with ASEAN?

Once Minister Crean provides an answer to these questions, the AMWU will be able to determine whether this is a balanced FTA supporting win-win outcomes in ETMs or, alternatively, whether once again tens of thousands of manufacturing job opportunities will be sacrificed on the altar of free trade." (AMWU statement on ASEAN/NZ/Australia FTA August 2008)

It may well be the case that the time has come to restructure the DFAT portfolio. The Australian Trade Commission, Australia's investment promotion initiatives, the going global program and other commercially oriented activities related to trade and industry development could be transferred out of DFAT to another

portfolio where they won't be "crowded out" by the virtual singular focus on free trade negotiations. Such a transfer of functions, as opposed to AANZFTA, may well be in the national interest.

Accordingly the AMWU will be commissioning a major impact assessment of how such a transfer might be achieved and with what costs and benefits. That assessment will then be circulated for debate and discussion within the labour movement.