Submission from the Textile, Clothing and Footwear Union of Australia (TCFUA) to the Senate Select Committee on the Free Trade Agreement between Australia and the United States of America

The Australian TCF industry will lose

Whilst there was potential for considerable benefits to the Australian TCF industry from this agreement, the US insistence on maintaining 'yarn forward' rules of origin has significantly reduced, if not eliminated, any potential up-side for industry and created a considerable down-side.

The US has different rules of origin to Australia and they have not agreed to change their system to ours just for TCF as part of the FTA. Australia argued for the rules of origin as negotiated with the ANZCERTA to apply – that is, 50% value-adding qualifies for free trade. The US system is what is called the 'yarn forward' rule. That is, goods can be made-up overseas (the labour component being the costly part) as long as they are made-up using American yarn. This is how they protect their domestic textile industry.

Despite the lack of agreement on rules of origin, the FTA stipulates that textile and clothing items produced in the US and shipped to Australia will immediately be given a two per cent preference over the general tariff rate.

Under the rules, for example, a five per cent tariff would be reduced to three per cent for qualifying US products. Similarly, a 15 per cent tariff would be reduced to a 13 per cent tariff. This form of reduction will continue until all Australian tariffs on clothing and textile products are eliminated by 2015. Given the failure to change the rules of origin this will be a one-way free trade agreement.

The bulk of Australian TCF industry (up to 80%) cannot meet US yarn-forward rules because much of our yarn is sourced from Asia. Most US companies meet this rule which means that by 2015 the benefits of the FTA will only flow to US companies.

These 'rules of origin' issues are in addition to concerns that large US companies with volume production will be able to flood the Australian market with cheaply made goods in some TCF areas where Australia has traditionally maintained a strong domestic base.

The failure to negotiate a change in the rules of origin is very disappointing because Australia is only a minor player in the US market. We rank 42nd in countries importing clothing into the US representing only 0.33% of all US

clothing imports.[1] We rank 33rd in countries importing textiles representing a tiny 0.19% of all US textile imports.

Our industry is tiny compared to the US. We employ 58,000[2] workers in the regulated sector, whilst the US employs 520,000 clothing workers[3] and 432,000 textile workers.[4]

Capital investment in the US textile sector in 2001 (excluding clothing) was $2.2B US dollars.[5] The equivalent period in Australia saw $202M (AUD) invested in the entire Australian TCF industry.[6]

Our industry is tiny, it is a minor player in the US domestic market and yet the US FTA is treating us as though we represent the same level of threat that China represents to the US TCF market.

In 2002 the US represented 7% of all Australian TCF imports of textiles and 1.6% of clothing.[7] The US FTA is likely to see an increase of textile imports, especially over time with the continued winding down of tariff rates. At the same time Australia's share of the US domestic market is unlikely to change as a result of the FTA.

Australian companies most at risk are those which are more capital intensive, competing at the higher end of the value chain. These are the very companies the Australian Government has earmarked for survival through their SIPS scheme, but ironically are most likely to face competition from volume production from US plants with new capital equipment, who will now see their tariff rates reduced under the agreement.

It is worth noting that US industry views the agreement as a win for the American industry. In the Industry Sector Advisory Committee report of March 12th 2004 to Robert Zoellick they said, "the rules of origin, which are generally yarn forward, are very appropriate and the most likely to support US business."[8]

The 10 year phase-out

Given that the rules of origin mean that effectively the Australian TCF industry is not achieving anything in regards to tariff-free access, it raises the question of why a ten year phase-out was agreed to for US exporters, with all tariff lines immediately being reduced.

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[1] http://otexa.ita.doc.gov/msr/catv1.htm
[2] ABS. Labour Force survey.
[3] American Apparel and Footwear Association website
[4] American Textile Manufacturing Institute
[5] Ibid
[6] TFIA Business Services.
[7] Ibid
[8] ISAC 15 Report for US/Australia FTA

Why weren't US imports into the Australian TCF sector treated in the same manner as Australian beef exports into the US market and granted an 18 year phase-in? Australian industry will face immediate import penetration and increased competition with virtually no longer-term benefits.

The "Safeguard" mechanism

The US-FTA has put in place some protection for Australian industry if imports surge in a short period of time, but what has been agreed to is not only insufficient but potentially damaging to other TCF exporters. The safeguard mechanism, which can be put in place for two years, can only be used once for any particular product. Thereafter, regardless of any surge in imports, this product cannot be protected.

Another aspect of the safeguard mechanism which will cause major problems for the industry is the requirement that the country imposing an emergency action will "be required to provide a level of trade liberalizing compensation to the other Party, preferably on other textile products and roughly equivalent to the negative trade effects caused by the action. If no mutually acceptable form of compensation can be found, then the exporting Party will be permitted to impose tariff penalties on other products equivalent to those suffered under the action."[9]

In other words, if the safeguard mechanism is used by an Australian firm, (and given the restrictive basis of the rules of origin the only likely user of this mechanism is Australia because so few Australian TCF exports will ever reach the US market),another Australian firm will suffer. This will be either a TCF firm, or if there is no TCF firm, then another Australian company in another industry.

The most likely implication of this "safeguard" mechanism is that it will never be used by Australia because there will be immediate retaliation by the US with our TCF or other exports.

No-go for Government procurement

One of the major "wins" announced by the Government in relation to the FTA is the opening of the massive US Government procurement market for Australian firms.

Even if all the Government optimism is correct, (overseas experience shows that whilst the market is large, firms from eligible countries only ever win a small percentage), the reality for most TCF firms is that this opening of the market is not something that will occur because of the rules of origin that have been negotiated.

[9] Article 4.1. DFAT "Guide to the Agreement."

All Australian TCF firms will be eligible to compete for US Government contracts but the majority (around 80%) will only be able to bid at the MFN tariff rate, not the zero tariff rate. This means that their price competitiveness will be seriously constrained and they are not likely to win many contracts. If the rules of origin negotiated had not been so disadvantageous to Australian manufacturers, the opening of the US market for Government procurement may have been a positive, but as it stands it will be virtually irrelevant to most Australian TCF manufacturers.

The US Free Trade Agreement has done nothing about opening the lucrative US defence procurement market. Strategic defence procurement is not covered by the agreement. US industry were pleased that "the Australia FTA continues the requirements of the Berry amendment, enshrined in other trade agreements, that all textiles and clothing for the US military must be made in the United States from US inputs."[10]

The US FTA is a missed opportunity for the Australian TCF sector. At a time when the industry is facing increasing import pentration and continued job losses the FTA could have provided a great opportunity for exports to the lucrative American market. Unfortunately, the terms, as negotiated, will only lead to further import pressure and continued Australian job losses.

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[10] ISAC 15 Report for US/Australia Free Trade Agreement