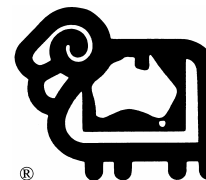


AUSTRALIAN WOOL PROCESSORS COUNCIL INC



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21 July 2005

AWPC-05-015

Mr Ric Wells
Head - Australia China Free Trade Agreement Taskforce
Department of Foreign Affairs & Trade
GPO Box 9839
CANBERRA ACT 2600

By E-mail: ric.wells@dfat.gov.au

Dear Mr Wells,

Removal of Barriers to Trade in Australian Wool Exports to China as Part of an FTA with China

The Australian Wool Processors Council (AWPC) represents companies engaged in wool processing from scouring through to weaving and garment manufacture.

AWPC has contributed to the wool industry submission co-ordinated by Australian Wool Innovation (AWI). However, it would like to comment in its own right, as it is the Members of AWPC who are most affected by the tariff and VAT schedules currently in place in China. They are itemised in the following table.

Wool Type	Tariff	VAT
Greasy	1%	13%
Scoured	1%	17%
Carbonised	1%	17%
Tops	3%	17%

While small by comparison with some other commodities, they are significant to the Australian wool industry adding \$10.6 million to the cost of Australian wool bound for China in 2003/04. Australia wool exports to China in 2004/05 will be in the order of \$1.2 billion.

But, more particularly, the differential tariff and VAT regimes which favours the importation of greasy wool works to the disadvantage of our local "early stage" processing industry. Early stage processing includes scouring, carbonising and top production, tops being the last stage before yarn production.

For policy reasons of its own, China favours the importation of greasy wool over semi-processed wool. This is to the detriment of the Australian wool processing industry and is exacerbated by the differential tariffs and VATs. We are aware that China may wish to exclude reference to VATs in the FTA negotiations, but we ask that you press for their inclusion, please.

We are also aware of rumours that China may wish to exclude wool from the FTA negotiations because of threats to its own wool industry. As the Chinese know only too well themselves, their domestic wool clip is predominantly much coarser than the fine wool produced in Australia and has entirely different end uses. With China's aim to further develop as a producer of fine woollen garments, they must have ready access to Australian wool. The Chinese wool processing industry should favour a reduction in tariffs and VATs, as it will make wool cheaper for them.

China is Australia's largest customer for wool, taking 62.1% of our exports in May (progressive July to May = 53.6%). But, unlike most other countries which import wool from Australia, China imports a disproportionately high percentage (up to 90%) of their wool in greasy form. This in turn impacts on

Australia's local processing industry and the production of semi-processed wool. The increasing significance of this change is seen in the following table:

Year	% Of Clip Exported to China	% Of Clip Exported Globally in Semi- Processed Form
1996/97	23.3	26.4
1997/98	22.0	27.8
1998/99	24.3	28.7
1999/00	32.0	26.7
2000/01	37.2	26.6
2001/02	42.0	25.3
2002/03	41.3	25.0
2003/04	46.0	19.5
2004/05 (to May)	53.6	16.1

The dramatic impact over the last two years is apparent, as China's share of Australia's wool exports has grown. In terms of different forms of early stage processed wools, the proportion of wool processed in Australia has moved as follows in the last four years.

Please note the figures in the next table add to slightly less than those in the third column of the above table because, while they represent the main forms of semi-processed wools, there are others of lesser importance.

Year	Wool Type		
	Scoured (%)	Carbonised (%)	Tops (%)
2001/02	9.6	5.5	8.7
2002/03	9.5	5.5	8.0
2003/04	8.4	4.7	5.2
2004/05 (to May)	7.2	4.4	3.9

It is easy to dismiss the above and say that it represents part of a global shift of textile (and other) manufacturing to China and not worth pursuing. This would be short sighted, as:

- * The future of Australia's wool industry will not always be as dependent on China, as it is today. The UK, Japan and Western Europe were all once major processors of Australian wool. Economic factors, e.g. cost of production, contributed to a decline of processing in these countries, as rising living standards and wages in China will surely see other countries increase their share of Australia's wool exports at China's expense. Those new countries may wish to purchase semi-processed wool in similar quantities to those of the past.
- * Australia has an acknowledged world class early stage processing industry. It should be allowed to compete on a playing field where at least the trade barriers are removed or levelled.

It is acknowledged that differential tariffs and VATs alone are not responsible for the decline in the current status of the Australian wool processing industry, but they are major factors and their removal will assist the industry.

I can be contacted at the above should you require any further information.

Yours sincerely,



Peter Morgan
Executive Director