

Mr Ric Wells
Head- China Free Trade Taskforce
Department of Foreign Affairs and Trade
RG Casey Building
John Mc Ewen Crescent
BARTON ACT 2601

Ric

Dear Mr Wells

Thank you for the opportunity of providing further comments on the proposed China Australia Free Trade Agreement.

The Australian Carpet Industry

The Carpet Institute is the peak industry body representing Australia's carpet industry. The Institute's members account for 95% of Australian carpet production and supply over 75% of the total volume of carpet sold in Australia.

The carpet industry, the largest single component of the Australian textile sector, employs 3,300 people in manufacturing and factory production is worth about \$830 million a year.

The industry has performed well over the past decade, however, competition is intense and imports are increasing their share of the Australian market.

Proposed Free Trade Agreement

The Institute on behalf of its members has a major interest in the proposed preferential trade agreement with China, largely for defensive reasons.

China is a major carpet producer and exporter whose carpet manufacturing capacity is expanding very rapidly. Between 2000 and 2004 China's production of man-made carpet increased at an average annual rate of 19% while its exports to all destinations grew by 30% in annual average terms.

Australia/China Trade Data

China's carpet exports to Australia increased on average by 36% in volume terms over the past 4 years and, as a consequence, China is now the third largest supplier of machine made carpet to the Australian market behind Belgium and New Zealand.

In 2004/05 China exported 1.5 million square metres (sqm) of machine made carpet to Australia worth \$14.6 million while in 1999/2000 the comparable figures were 0.5 million sqm and \$6.7 million. Over the same period, Australia's exports of machine made carpet to China (including Hong Kong) declined by 50% in volume terms to 113,000 sqm and 25% in value to \$2.5 million.

China's carpet exports to Australia are expected to continue to increase strongly over the years ahead. China is rapidly emerging as a major force in the world carpet industry, assisted by low manufacturing costs, supportive government policy and investment programs, and a highly managed exchange rate.

Tariff Rates

China's tariffs on machine made carpet are 10%, 14% and 16%. In contrast, Australia has a uniform general rate of 10% that is legislated to fall to 5%, the long-term rate, on 1/1/2005.

Importance of the Howard Government's Post-2005 TCF Plan

The Carpet Institute strongly believes that the tariff outcome from the proposed Australia China free trade agreement, and all other preferential trade agreements, should be consistent with the legislated tariff rates that are an integral part of the Government's recently announced post-2005 Textile, Clothing and Footwear assistance arrangements.

Any departure from the TCF Plan in respect of tariffs on imported machine-made carpet from China would represent a major watering down of the post 2005 assistance arrangements.

Accordingly, the Carpet Institute strongly agrees with Minister Macfarlane's view that the legislated post 2005 TCF tariff arrangements should not be changed as a result of the proposed preferential trade agreement with China.

Tariff Request

The best tariff outcome for the Australian carpet industry would be to let the post 2005 Plan runs its course. This means that the carpet tariff would be retained at 10% until the 5% long-term general rate is introduced on 1/1/2010. Under this scenario, we propose that Chinese carpet tariffs be phased down to 5% by 2010 with 'zero for zero' introduced thereafter.

The second best option would be to phase down carpet tariffs in line with the outcome of the recently concluded Thailand Australia Free Trade Agreement (TAFTA). The phasing profile would be as follows:

	Current	2006	07	08	09	2010
Australia:	10%	10%	10%	8%	5%	0
China:	10%	10%	10%	8%	5%	0
China:	14%	14%	12%	8%	5%	0
China	16%	14%	12%	8%	5%	0

Recognizing that China's machine- made carpet industry is technologically advanced, highly cost competitive, and rapidly expanding its production capacity, we believe that it would be inappropriate and damaging to the Australian carpet industry to afford Chinese imports any additional margin of preference.

Rules of Origin

The Carpet Institute supports the adoption of the Change of Tariff Chapter Heading (CTC) transformation test plus a regional value content threshold of not less than 45% using the build down valuation method.

Local content should be attributable to China and Australia and not, as occurred under TAFTA, recognize non-indigenous developing country content.

Safeguards

The proposed trade agreement should, in our opinion, contain effective general and textile-specific safeguard measures to ensure that Australian manufacturers are not exposed to significant market disruption as a result of import surges.

It is also important that the Australian Customs Service has adequate resources to carry out its various FTA-related responsibilities.

At the same time, the force of Australia's intellectual property and anti-dumping legislation should not be diminished as a consequence of entering into a preferential trade agreement with China.

Non-Tariff Barriers

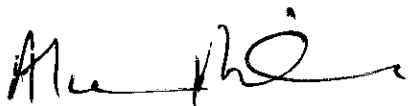
The main concerns reported by the Institute's members who export to China are:

- IP protection- carpet designs are often copied
- customs procedures are time consuming, sometimes arbitrary in their requirements and lacking in transparency, and
- testing procedures for imported products can be time consuming, expensive and vague as to specific requirements.

The Institute believes that any decision to enter into a FTA with China should be conditional upon the removal of all identified non-tariff barriers that are capable of being resolved through Government-to-Government negotiations.

Please don't hesitate to contact me if there are any queries.

Yours sincerely



Allan Firth
Executive Director
16 September 2005