Executive Summary

In global textile and clothing markets China is by far and away the dominant player with significant import penetration into most developed and many developing country markets. The Australian TCF industry is not immune to this global pressure and has found itself over the last decade or more coping with continued growing market penetration from Chinese imports. While the major effect of this loss of market share has been negative it has also led to several companies accessing the Chinese market either as final good and/or input markets or to base some of their manufacturing capacity in China.

The TFIA would make the following comments/recommendations in respect to the feasibility study under the Australia-China Trade and Economic Framework:

- An FTA be opposed between Australia and China until such time as Australian industry considers that there is a level playing field between the two economies;
- China must agree and show proof of reducing all identified non-tariff barriers;
- Australian tariffs on Chinese imports should be phased in step with the current Government policy concerning TCF tariffs post 2005. The industry would reject outright any broad based immediate zero for zero reductions;
- Tariffs on Australian products imported to China should be phased at a steeper path than that required of Australia under any agreement;
- Any agreement should consider measures and methods that seek to integrate the textile and clothing manufacturing sectors of each country including in investment, distribution networks and supply chains;
- There is only one assessment of a market economy;
- Any agreement must contain specific safeguard measures for the TCF sector and a robust anti-dumping system;
- The TFIA believes that a regional threshold approach at the principal manufacturer level is the best form of Rules of Origin for an FTA;
- The Federal Government must make public its “walk away conditions” ahead of formal negotiations occurring; and
- All economic modelling undertaken for this feasibility study must be provided for industry review and comment ahead of it being formally presented to the governments’ of each country.

Introduction

The Council of Textile and Fashion Industries of Australia Limited (TFIA) is the peak industry body representing firms and organisations covering textile and clothing activities in Australia.

The industry provides 80,000 jobs[1], sales of more than $7 billion a year and significant new capital spending each year. Exports are growing rapidly, with TCF&L products contributing about $3 billion to Australia’s total exports. The industry represents approximately 10 per cent of all manufacturing establishments in Australia. This activity produces “feeder” benefits through other sections of the economy. For instance, it is estimated that each job in TCF&L creates 2.5 to 3 jobs in other sectors.

[1] TFIA Business Services

The industry also provides substantial employment in regional and metropolitan areas, particularly for females. Much of the workforce is particularly difficult to redeploy in other sectors of the economy as several studies have shown[2].

The Study's terms of reference are quite broad and cover a wide range of issues. These, and associated questions raised specifically by the Government and Government Departments, are dealt with in the remainder of this document. A survey sent to all members on the agreement and to which the results are referred to throughout this document is included as an appendix.

The Australian and Chinese TCF Industries and trade between them

In terms of Textiles, Clothing and Footwear, China is the dominant player in the global market. Its industry dwarfs that of Australia and of many other developed countries. While it is difficult to obtain accurate figures on its size conservative estimates place its turnover at $US129 billion annually with a direct workforce of some eight million people[3]. In contrast the Australian TCF manufacturing industry records an annual turnover of around $US7 billion with a direct workforce of some 80,000 Australians.

Table 1 provides a summary of the trading situation in TCF between Australia and China based on ABS data for 2002/03.

TABLE 1 – Summary Trade Data – Australia & China

Heading	Chinese imports to Australia – (FOB) $A mln	Australian exports to China – (FOB) $A mln	Trade balance – (FOB) $A mln
Textiles	653.9 (24%)	29.0 (5.8%)	-624.9
Clothing	2,409.4 (70%)	2.7 (0.8%)	-2,406.7
Footwear	623.2 (61%)	0.2 (0.4%)	-623

As the table illustrates Chinese imports dominate the Australian clothing and footwear markets and account for just under a quarter of all textile imports. Interestingly Australian exports to China of textiles account for 6% of all Australian textile exports and China is the fourth largest destination for these products after New Zealand, United States and Fiji. In respect to both clothing and footwear China is somewhat out of the top ten export destinations for Australian exports of these items. While not shown here the sheer size of China is even more aptly illustrated when this data is viewed in volume terms.

Charts 1 and 2 shows the share of imports for China, New Zealand, Fiji, India, United States and a representative Asia[4] for textiles and clothing.

[2] For more information see the Productivity Commission's final report on TCF Assistance, 2003 or Centre for Work and Society in the Global Era's report *'The Long Goodbye: TCF workers, unemployment and tariff deregulation'*, DIIRD Victoria, August 2003
[3] This figure is taken from Textiles Intelligence Limited *'Textile Outlook International'* November-December 2003 and is very much a conservative estimate of the size of the Chinese market.
[4] Includes South Korea, Taiwan, Indonesia, Thailand, Hong Kong, Malaysia

Chart 1 - Imports of Textiles (% share of total imports)

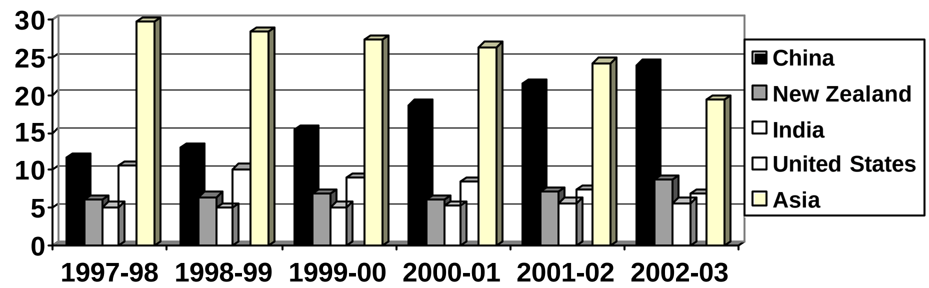
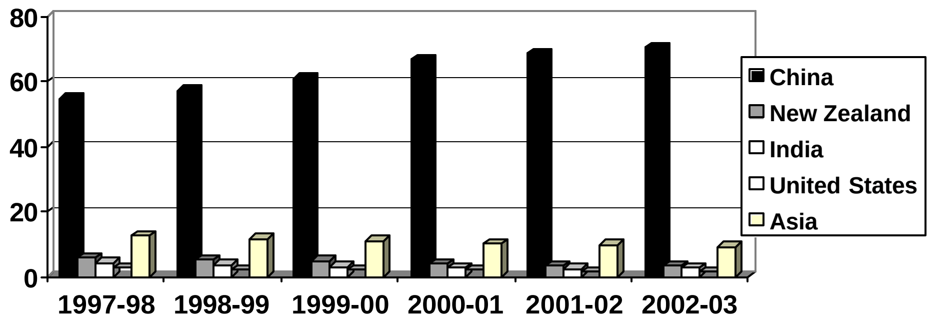


Chart 2 - Imports of Clothing (% share of total imports)



In respect to imports of textile goods chart 1 shows that while China's share of imports has increased since 1997-98 the shares of the other major sources have remained relatively constant with the selected group of Asian countries having the largest decline. This illustrates that much of the increase in Chinese textile imports has been through increased market penetration rather than displacement of other importers.

Chart 2 displays a mixture of increased penetration and trade diversion away from the other importing countries in favour of China. The chart also shows the clear and growing dominance of China in the Australian clothing market. Since 1997-98 Chinese imports have grown at an average rate of around 15% compared with an average growth rate of around 9% for all clothing imports to Australia.

The TCF&L Market Access report prepared by Werner International in May 2003 showed that China invested the most of any Asian country on spinning, draw texturing, weaving and knitting equipment. In 2002 China accounted for 70% of draw texturing, 42.5% of spinning, 82.5% of weaving and 38.5% of knitting machinery shipments to the Asia/Oceania region. China continues to invest heavily in new machinery and equipment for the TCF sector which reflects future income for those companies in China.

Finally Table 2 shows comparative manufacturing costs for textile processes in a range of countries. This data is based on an annual survey undertaken by the International Textile Manufacturers Federation and shows the results for China and the United States. Unfortunately Australia is not included in the study and the United States is used as a proxy. To aid the comparison a column using the current hourly rate based on the Australian Federal TCF award is also included.

TABLE 2 – Cost Comparison Table

(All figures in USD)

	China	USA*	Australia
Cost factors – Weaving			
Hourly wage for skilled personnel	1.45	17.97**	14.98`
Hourly wage for machine tenders	0.76	15.76**	
Hourly wage for unskilled personnel	0.66	12.50**	11.51``
Cost of electric power (per kwh)	0.07	0.05^	
Cost of oil/gas (per kg. / per cu. ft)	0.37 (oil)	0.01^ (gas)	
Cost factors – Knitting			
Hourly wage for skilled personnel	1.64	16.39**	14.98`
Hourly wage for machine tenders	0.93	13.34**	
Hourly wage for unskilled personnel	0.93	11.82**	11.51``
Cost of electric power (per kwh)	0.066	0.045^	
Manufacturing costs – Weaving Textured Yarn (USD per yard of fabric)^^			
Labour	0.02 (5%)	0.22 (30%)	
Power	0.06 (16%)	0.24 (34%)	
Total manufacturing costs	0.37	0.71	
Manufacturing costs – Knitting Textured Yarn (USD per yard of fabric)^^			
Labour	0.003 (10%)	0.045 (55%)	
Power Total manufacturing costs	0.01 (28%) 0.04	0.007 (8%) 0.08	

*conditions in south-eastern United States
**includes 25% fringe benefits
^rate for industrial user in Greenville County, South Carolina
^^Figure in parentheses is percentage of total costs
`Hourly rate for skill level 5 worker under the award plus 30% on costs
``Hourly rate for a trainee under the award plus 30% on costs
Source – International Textile Manufacturers Federation, *'International Production Cost Comparison 2003'*

While there are a number of caveats on the data in the table it illustrates the advantages faced by China in manufacturing. The majority of cost difference is due to labour representing 5-10% of manufacturing costs in China compared with 30-55% in the United States. The table also supports work undertaken in the May 2003 Market Access study which showed that out of 40 countries only Bangladesh, Pakistan and Sri Lanka faced a lower per hour operator cost in the production of textiles than China. However it should be noted that none of these countries have the same infrastructure or Foreign Direct Investment levels as China.

While China's anticipated move to a developed economy will see these wage rates rise this will not be a short-term phenomenon and presents a significant issue and impediment to having fair and open competition between the countries. The TFIA will not be drawn in to discussions around labour standards and human rights suffice to note that China should be expected under any agreement to adopt the same standards in these areas as exist in Australia.

International Events

The terms of reference for the study ask for an assessment of recent international events on any possible Australia-China Free Trade Agreement. The TFIA believes there are several issues that should be viewed for the textiles and clothing sectors. The first relates to the current positions and attitudes of the United States and European Union to China and their potential reactions to the ending of quotas on TCF products globally.

Both the European Union and United States have expressed a considerable amount of concern regarding the rapid growth of Chinese imports into their markets. In 2003 the American Textile Manufacturers Institute (ATMI) launched its crisis in textiles campaign and called on the United States Government to take four steps one of which was to effectively use the special China WTO textile safeguard. The European association has also made similar calls to European Commission.

The potential impacts of the United States or the European Union instituting the China WTO textile safeguard are difficult to quantify. The safeguard is contained in Article 16 of China's Accession document and allows a WTO member after the necessary consultation mechanisms have been exhausted to "…withdraw concessions or otherwise to limit imports only to the extent necessary to prevent or remedy such market disruption"[5].

Compounding this uncertainty is the impact that the removal of quotas as required under the Agreement on Textiles and Clothing on 1 January 2005 will have on the entire global supply of TCF products.

A final note in respect to International issues is the impact such an agreement with China would have on Australia's other bi-lateral trade agreement partners and in particular, Fiji and New Zealand. Both the SPARTECA (Fiji) and ANZCERTA (New Zealand) were agreed in the 1980's and have been beneficial for Australia, Fiji and New Zealand. Additionally an agreement has recently been concluded to allow preferential entry for TCF products from LDC's.

These agreements have significant benefits for those countries through preferential trade with Australia, however as noted in a separate study into the Fiji TCF industry (commissioned by the Australian Government), the agreements with Thailand and Singapore are and will impact trade between Australia and Fiji. The potential for China to increase its already significant share of Australian markets under any agreement would impact Fiji and the other LDC's in the same fashion as those with Thailand and Singapore. The potential for trade diversion effects of FTA's to impact these other aspects of Australia's Foreign and Trade policy needs to be addressed in the modelling and analysis of this agreement.

Impact on Industry of Agreement

While the weight of numbers may be skewed in favour of China the TFIA and its members remain open-minded about the potential offered by China in terms of a marketplace and supplier of product. However, this potential depends largely on the removal of both tariff and non-tariff barriers in China.

In consultation with members several noted that the removal of just tariffs by China would have little impact on their ability to sell into the market. Quite logically it is the sheer number and magnitude of non-tariff barriers that present the biggest barrier for

[5] WTO document WT/MIN(01)/3, Page 21

trading with China. On the other side they noted that immediate duty free access for Chinese goods would have a significant net impact on their own domestic markets (more than 20% fall in their turnover).

To provide some quantifiable figures to the discussion members were asked through the survey to indicate the impact that an FTA would have on their investment and employment decisions. For both investment and employment decisions only one respondent indicated that it would cause them to increase their investment by 10-15%. All other respondents indicated that it would cause them to decrease their planned investment and employment with most indicating a decline of 20% or more.

Tariffs are a relatively easy barrier to deal with in an agreement, as they are visible and quantitatively tradeable between countries. They also have an immediate impact on the operations of industry in each of the agreement partners. The TFIA would propose that under any agreement tariffs be phased down as has been accommodated in other FTA's with TCF products rather than the more typical and preferred zero for zero approach of the Australian government. In commenting one member noted:

> *"As China already has a 50% plus share of the Australian market future tariff phasing should conform to [the] post –2005 plan".*

The TFIA would propose that Australian tariffs reduce in step with current government policy (as shown in table 3). Chinese tariffs would be phased at a steeper rate given the size of their TCF sector relative to Australia although the TFIA is yet to develop this in detail. Further the agreement would not allow zero-for-zero reductions except in specific cases such as those developed in the Australia-United States FTA. However, application of the manufacturers concession scheme (see below) could reduce duty paid to zero in some cases.

TABLE 3 – TCF Tariffs 2005-2015 (Current Government Policy)

	From 1 January		
	2005	**2010**	**2015**
Clothing & Some Finished Textiles	17.5%	10%	5%
Woven Fabrics, Carpets & Footwear	10%	5%	5%
Sleeping bags, table linen, footwear parts	7.5%	5%	5%
Textiles, yarns	5%	5%	5%

Of more concern to our members and a much more difficult problem for the Government to deal with are those non-tariff barriers faced by Australian exporters into China. The following table shows those barriers identified to the TFIA in order of their importance from the survey:

- **Pricing** – levels and lack of transparency in calculation;
- **Intellectual Property** – lack of protection in China of concepts, ideas and products;
- **Bureaucracy** – the myriad of officials, agencies and rules required to gain access to the Chinese market. Many of these occur not at the national level but at the Provincial level;
- **Seller Concentration** – the high number of sellers (largely domestic) in product markets in China requires substantial branding, marketing and promotional activities along with potential price wars;
- **Transport and distribution –** foreign companies are required to open at least two commercial offices in Beijing and in Shanghai to comply with all Chinese

Administrative requests, particularly the establishment of own distribution networks;

- **Licensing arrangements** – like IP issues many companies have found it difficult to obtain the correct licence to be able to sell goods in China;
- **Capital** – lack of available capital to access Chinese markets. As noted at the Melbourne TCF roundtable China does not allow second hand machinery to be used in China thus increasing the cost for companies seeking to establish operations either individually or through joint ventures;
- **Poor payment from export debtors** – to Australian producers of exports either through not paying or paying well past due for orders; and
- **Low labour and input costs** – as noted above China enjoys a considerable cost saving over Australia in terms of labour and equally in many inputs the TFIA is led to believe that significant price distortion and manipulation occurs.

Of all of these identified non-tariff barriers those relating to pricing and transport were seen to have the most significant benefit for the Australian industry through their removal although the TFIA would expect that all NTB's would be removed under any agreement.

Additional barriers have been noted by the Werner TCF&L Market Access Study including:

- **Customs procedures** – difficult, time-consuming and non-transparent
- **Internal taxes and charges** – VAT taxes are applied in a discriminatory manner
- **Standards** – expensive, time-consuming and discriminatory technical/quality testing procedures for imported goods compared with domestic products
- **Labelling** – specific labelling for the Chinese market requires a long series of information requests – around 11 or so separate items of information

It is interesting to note that these barriers are not only identified by Australian companies but have also been regularly noted by textile and clothing manufacturers in many other developed countries particularly the United States and European Union.

In a recent address made in January of this year the President of EURATEX (the European Industry Association for textile and clothing manufacturers) noted the barriers above and called on the European Commission to ensure that China had addressed all these barriers in accordance with their WTO obligations. The TFIA would also argue that these barriers must be dealt with to the satisfaction of not only Australia but also the WTO membership before any FTA could begin between Australia and China.

Cooperation between Australia and China

The TFIA does not wish to seem solely opposed to any agreement as this would be a ridiculous stance to take. In the course of consulting with TFIA members several raised the potential for the agreement and hence for the Governments in this feasibility study to develop ways and means of integrating the two industries to achieve a win for TCF rather than having to justify a less that desirable outcome in TCF by a greater gain in a different Australian industry or service sector.

The TFIA would also note that many companies are already successfully moving into China as producers, sellers or service providers and this should continue under the Trade and Economic Framework. However, this remains the exception rather than the norm and all have found the path exceptionally difficult to take, particularly when looking at the ease with which this can be undertaken in Australia.

One company noted that the

> "….*Australian Government must secure "channels to market" for Australian manufacturers including within market assistance*".

This could be undertaken using the existing Austrade resources and through additional assistance as part of any agreement to offset the costs of establishing a presence in the Chinese market or lower thresholds for programs such as EMDG.

Another option may be to offer some type of Manufacturers Concession Scheme under the agreement. Under this scheme companies would receive duty credits for undertaking TCF value added manufacturing processes. These credits would then be redeemed for preferential entry of other TCF goods under the agreement provided the manufacturer met the necessary RoO. I.e., The credits can be used to offset the phase duty rate that would apply to Chinese product. An extension to this model would be to enable the credits to be sold to other companies and therefore promote further interaction.

This type of approach works to encourage bi-lateral investment and maintains Australia's manufacturing sector while allowing improved duty access for Chinese imports. With the addition of RoO requirements it would also promote consumption along the supply chain compounding the gains already being made. Such schemes have operated previously in Australia.

The TFIA believes that such a system would not contravene WTO rules on subsidies but would accept that the Government must investigate this aspect. The industry would be more than happy to work closely with negotiators from both countries on developing such a concept fully compliant with WTO guidelines to be included if an agreement is negotiated. The TFIA has already met with its Chinese counterparts in early 2004 and expects to continue regular dialogue with them, which can complement the work of Government.

What does the TFIA consider to be a market economy and level playing field?

The TFIA considers the issue of the Chinese economy the most critical aspect of any FTA and disagrees strongly with the approach advanced by DFAT officials at the recent roundtables. At these meetings it was indicated that the issues around whether China is or isn't a market economy relate only to the anti-dumping aspects and the rest of the Chinese economy should be viewed in a different light. There can only be one test of a country's economy. It is the essence of the system of anti-dumping.

The Chinese TCF market as a whole does not exhibit the hallmarks of a market economy for anti-dumping or any other mechanism and the TFIA and its members remain opposed to any FTA for as long as Chinese companies have an unfair advantage over the Australian economy. Providing other matters such as addressing non-tariff barriers are dealt with appropriately, the TFIA could support a Free Trade Agreement if it was agreed that under the agreement suggoracy could be applied for anti-dumping activities.

As part of its survey the TFIA asked member companies to nominate which characteristics they felt China needed to display to be considered a market economy and for which a level playing field would hold. Theses are listed below in priority as recorded by the survey:

- Transparency in pricing structures and supply chain relationships;
- Full adherence with its WTO obligations – we would contend that this is contingent on all WTO members agreeing this rather than just Australian unilaterally declaring that China was a market economy;
- Prices and costs to be presented against recognised international benchmarks;
- Implementation of an effective and real competition policy and enforcement body;
- Adoption of international accounting standards;
- Demonstration of market economy characteristics in both Chinese social and economic legislation;
- Removal of state control and influence regarding resource allocation; and
- Implementation of a free floating currency

Many of these characteristics are complex and require a significant amount of reform within the Chinese economy. Without such reforms particularly those relating to pricing and cost structures, Australian companies will be unable to clearly understand the markets they are selling into. Likewise, declaring China a market economy for the purposes of anti-dumping would leave Australian companies with little right of remedy under the FTA.

The Australian industry is prepared to discuss entry into Free Trade Agreements provided that the agreement sets up a level playing field. The two most recent agreements Australia has conducted with Thailand and the United States have in the mind of many in industry failed to do this. In respect to Thailand many non-tariff barriers will remain in place. Likewise the insistence by the United States to include Yarn and Fibre forward RoO effectively rules out most Australian TCF products from entering the US market at concessional rates. While a margin of only 2% is given to the United States many in the industry still argue that the US got the better deal. The industry would be decimated should a similar issue arise with a free trade agreement with China.

The industry also takes issue with the contention by several DFAT staff that such issues could be managed in any agreement, presumably referring to specific requirements or requests for China under the FTA. The industry would not place significant faith in the ability of the characteristics outlined above to be managed by any agreement. The issues are very broad and integrated deeply into the Chinese economy and culture. While rules could be put in place to create a competition policy and authority and to require the use of transparent internationally comparable accounting practices there would remain questions over the extent to which could be enforced.

As such the TFIA and its members remain opposed to any FTA between Australia and China until such time as the industry considers there is a level playing field between the two countries. With many companies already operating or engaging in China by choice it would seem prudent for Australia to continue in this fashion until such time as the international community considers China to have attained market economy status.

Rules of Origin, Safeguards and Anti-Dumping considerations

Related closely to the issue of whether China is a market economy are those around Rule of Origin (RoO), Safeguards and Anti-dumping considerations. At the broadest level the TFIA would expect any FTA to maintain TCF specific safeguard provisions and Australia's anti-dumping provisions as requested by the Australian Industry Taskforce on Anti-Dumping.

At this stage the TFIA has not undertaken a detailed study of the impact of an agreement on every item covered under the textile and clothing headings of the Tariff code. However, we can note that in general terms any agreement should provide for safeguard mechanisms to come into play dependent upon certain triggers. These triggers could be linked to any number of outcomes, such as import growth, domestic industry contraction, employment etc.

In considering this need the TFIA would suggest that the Governments look closely at the safeguards clause provided in the United States-Singapore Free Trade Agreement (Article 5.9: Bilateral Textile and Apparel Safeguard Actions). This broadly allows for the either the suspension of further tariff rate reductions provided under the agreement or an increase in the rate of duty on the good to no higher than the lesser of the current MFN rate or the MFN rate that applied on entry into force of the agreement.

The TFIA will provide more detail on these safeguard measures should negotiations begin on any agreement between Australia and China.

Any agreement would need to maintain Australia's existing anti-dumping mechanisms including the Economies in Transition provisions that currently exist. Regardless of the status of the Chinese economy such provisions must remain, as they should in all of Australia's bi-lateral agreements to prevent transshipment from other economies in Transition. The TFIA and its members would not support any agreement that weakened the right of companies to take remedial action through this method.

The TFIA would seek to ensure that the RoO implemented under this agreement follow those under the Australia-Singapore Free Trade Agreement. These are centred on the concept of final process of manufacture and a minimum member state local content of 50% incurred by the principal manufacturer of the good.

It is also important in discussing RoO to understand where the World Customs Organisation (WCO) deliberations are heading in respect of international RoO for non-preferential trade. The TFIA's understanding is that this process while currently being applied for non-preferential trade will likely provide clear indicators for preferential trade rules. The TFIA has been involved in this WCO process for a considerable number of years and believe that current stalling is due to the complexity and conflict amongst member nations as to the appropriate rules for particular products, not the least of which are textile and clothing related goods. The final outcome of this process, if indeed there is one, may provide additional information to allow extended investigation and analysis in this area.

Conclusion / TFIA recommendations

The TFIA wishes to make two additional comments in respect of this study and any potential FTA between Australia and China. Firstly, a common criticism levelled at the Government over the last two free trade agreements is the lack of transparency of negotiations. While the TFIA respects the need to treat these negotiations sensitively or agreements may not be reached it does believe that industry should be consulted comprehensively during discussions. Most importantly the Federal Government must make clear to industry its walk away strategy and hence its minimum necessary gains for the agreement to work.

Finally, in respect to the modelling to be undertaken by DFAT and their Chinese counterparts for this study the TFIA would ask that industry be closely involved in all aspects of this work. This could be done through additional workshops and roundtables related specifically to the modelling and through the ability for industry to comment on preliminary results. This approach allows companies and the industry to note early on whether the model is making the right assumptions about the sector and assist the modellers to address them. The end result is a more robust model and assessment of any potential agreement.

Ahead of concluding the TFIA wishes to quote one of the respondents to the survey as it provides a good assessment and summary of the state of feeling in the industry towards the Federal Government's policy on Free Trade Agreements. The respondent noted

> *"[We are] a supplier of high quality, high value added fabrics to local and export customers….We have an excellent distribution network. Where we manufacture is unimportant. Our preference is to manufacture locally however if Government policy makes this difficult we will switch to importing."*

The Government needs to be mindful that many of the larger companies in the TCF sector view this as a potential option. The impact that the removal of a large integrated manufacturing plant can have on not only the regional economic area but for Australia has been well documented.

In concluding therefore the TFIA recommends:

- An FTA be opposed between Australia and China until such time as Australian industry considers that there is a level playing field between the two economies. To undertake negotiations any sooner would be to the significant detriment of the Australian TCF industry;
- China must agree and show proof of reducing all identified non-tariff barriers. This should also be done in respect to Australian goods faster than that required under the WTO ascension document;
- Australian tariffs should only be phased in step with the current Government policy concerning tariffs post 2005. The industry rejects outright any immediate zero for zero reductions;
- Further given China's size compared with that of Australia Chinese tariffs should be phased at a steeper path than Australia;
- Any agreement should consider measures and methods that seek to integrate manufacturing sectors of each country. This could be done through a manufacturers concession system;
- Any agreement must contain specific safeguard measures for the TCF sector and a robust anti-dumping system;
- The TFIA believes that a regional threshold approach at the principal manufacturer level is the best form of Rules of Origin for an FTA;
- The Federal Government must make public its "walk away conditions" ahead of formal negotiations occurring; and
- All economic modelling undertaken for this feasibility study must be provided for industry analysis and comment ahead of it being formally presented to the Government.

Appendix – Survey of TFIA members – Questionnaire and results

Company Participation

The survey had a 36% return rate, which is a good outcome for a survey. Those companies responding provided a good cross section of the Australian TCF sector including textile and clothing manufacturers, retailers, distributors and importers. They were also a mixture of large companies with operations globally and smaller Australian based companies. Reflecting the make-up of the TFIA's membership just under 50% of respondents were involved in the manufacture of textiles.

The companies that responded to the survey employed 10,263 persons this is 15% of the total ABS recorded labour force and suggests that the survey results can be used to assess the direction and mood of the industry.

Commercial impact

When asked if duty-free access to China would increase sales to China 54% of companies indicated that it would not. Of the 38% who said yes 80% indicated that the increase would be between $500,000 to $5 million. The remaining 20% indicated that extra sales would be less than $500,000. This result likely reflects the large number of non-tariff barriers that exporters to China face, so that even with an immediate reduction of Chinese tariffs to zero gains remain limited.

The reverse side of the question sought company responses on the net impact of duty-free entry of Chinese goods (Australian tariffs reach zero immediately). The term net was used to allow companies to account for potentially cheaper inputs and cheaper competitive goods. Not one positive response was received. The majority (54%) of companies indicated that it would have a net impact of minus 20% or more. 8% saw no net impact.

The next two questions focused on those companies already producing part of their product or product ranges in China. Of those companies already engaging in this diversified production the overwhelming majority (89%) indicated that it would increase this activity. However among those companies that were not already producing in China opinion was evenly split as to whether an FTA would make them begin production in China.

Exports to China

Only 23% of respondents are currently exporting product to China while none of the respondents had previously been exporting to China. The survey asked respondents to nominate which barriers they had faced in exporting to China. The most common barriers noted were tariffs, pricing issues and Intellectual Property issues. Other barriers felt to be significant included burdensome bureaucratic processes and high seller concentration in Chinese domestic markets. In addition to those listed on the survey respondents also noted poor payment from export debtors, low labour costs, lack of efficient and accessible logistics and the recently high exchange rate.

A subsequent question asked companies to nominate which of the identified barriers would have the most significant short-term benefit for them. The majority of respondents indicated improved pricing transparency as the most significant with tariffs also rated highly.

Market Economy

The survey asked respondents to nominate those characteristics they felt China would need to address to be considered a market economy. Of the seven characteristics listed transparency, adherence by China to its WTO obligations and adoption of international accounting standards and benchmarks were noted as most significant for China to be considered a market economy. In addition to those listed several responses also noted the importance of having a free-floating currency and the full removal of subsidies.

Investment impact

When asked about the impact on companies investment decisions from any Australia-China FTA all but one respondent indicated a negative impact. He one respondent indicated that it would have a positive impact on their investment decisions of between 10% to 15%.

Of those indicating a negative impact 60% noted that they would revise down their investment decisions by 20% while a further 20% noted a reduction of between 10% to 15%.

Two respondents to the survey did not record an impact on their investment decisions.

Employment impact

Again all but one respondent indicated that an FTA would have a negative impact on their employment decisions. The one positive response saw a 10-15% increase in their employment decisions.

Of those who responded negatively 58% indicated that their employment decisions would fall by 20% or more under an FTA. The remaining 42% saw a decrease of between 10%-15%. Two respondents indicated no impact.

Position Statements

To conclude the survey respondents were presented with 6 positions for the TFIA to take. Each respondent could indicate that they agree, disagree or maintain a neutral stance regarding the statement.

a. ***The TFIA remain opposed to any FTA between Australia and China until such time as the industry considers there is a level playing field between the two countries. To undertake any negotiation sooner would be to the significant detriment of the Australian TCF industry.***

69% of responses agreed with this statement while only 8% disagreed. The remaining 23% took a neutral stance towards the statement. This produced a net agreement of 61%.

b. ***Under any agreement the TFIA would only support a phased reduction in TCF tariffs such that zero tariffs are not reached until 2015 (assuming passage of the current reform proposals of post 2005 arrangements).***

The numbers remained the same as in a. above with a net result of 61% of respondents agreeing with it.

c. ***Given the relative scale of the Chinese industry to the Australian industry Chinese TCF tariffs should be duty free immediately the agreement comes into effect while Australian tariffs are phased.***

In respect to this statement 62% of respondents agreed while 23% disagreed with the statement. The remaining 15% maintained a neutral stance in respect to this position.

d. ***Under any agreement China must adopt the same levels of OH&S, product and labour standards as faced by the Australian TCF industry.***

In response to this statement 54% responded neutrally. However no respondents disagreed with this statement.

e. ***Any agreement must include stringent requirements relating to Rules of Origin and Safeguard mechanisms***

Of all the statements put to the members through the survey this had by far the most support. 85% of respondents indicated that any agreement must include strong and stringent RoO and Safeguards. The remaining 15% indicated a neutral response with none disagreeing with the statement.

f. ***The Federal Government ahead of the commencement of negotiations must make public its "walk away" conditions and strategy****.*

An important point for many 62% of respondents agreed that the Federal Government must make its "walk-away" conditions known to the public and industry. This would improve the accountability of the Government and its negotiating team in respect of all aspects.

Additional comments:

"FTA start date should be made later than 2015"

"Apart from tariff preference for exporters to China, the Australian government must secure "channels to market" for Australian manufacturers including within market assistance."

"FTA tariff preferences greater than those under current Post 2005 legislation on clothing imports should only be supported if introduced via a controlled process through Australian manufacturers so that: (A) Impact on Australian manufacturing was self-balancing; (B) Benefit to both Chinese and Australian industry; and (C) controlled. This could be done by FTA access being achievable only to the extent that credits earned by local manufacturing activity in Australia [allow]."

"As China already has a 50% plus share of the Australian market future tariff phasing should conform to [the] post-2005 plan"

"[We are] a supplier of high quality, high value added fabrics to local and export customers……we have an excellent distribution network. Where we manufacture is unimportant. Our preference is to manufacture locally however if Government policy makes this difficult we will switch to importing."