



Submission to Australian Government on an Australia-Japan Free Trade Agreement

Executive Summary

The Australian TCF sector accounts for 4% of manufacturing sales, employs over 55,000 persons directly and is a significant contributor to the nation's skill base and standard of living. The sector also operates in some of the most competitive markets both in Australia and the world and thus it remains sensitive to changes in the trading environment and policy.

As a result Free Trade Agreements remain a critical factor for the Australian TCF industry and the TFIA, based on previous agreements and current Government policy, asks negotiators to ensure:

- No element of an agreement must impact or alter the policy intent or tariff levels under the Post-2005 SIP. This program has provided certainty for the industry and any change would cause significant disruption to the sector;
- That all non-tariff barriers identified by the TFIA and other manufacturing groups are addressed in a practical fashion under the agreement;
- That the agreement does not create new NTB's;
- That effective RoO's are put into place under the agreement that provide adequate protection against transshipment. This must also include clear guidelines on how they are to be policed
- That Trade remedies are made available to Australian companies, particularly SME's, that are WTO consistent, proactive and efficient to use.
- Adequate protection of IP must be provided under the agreement if increased trade in goods and services is to benefit both countries
- The agreement must provide access to all Japanese Government procurement. If this is not the case the same sectors carved out by Japan must also be left out of Australia's commitments
- That a clear timetable and path for consultation with Australian industry is put into place ahead of substantive negotiations beginning'
- That industry is aware of the minimum criteria to be fulfilled for acceptance of any agreement.

The remainder of this submission provides more detail on these points and the trade data in TCF between Australia and Japan



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Introduction

The Council of Textile and Fashion Industries of Australia Limited (TFIA) is the peak national industry association for the Australian textiles and clothing sector. Our membership numbers more than 350 companies and covers all aspects of the TCF supply chain in Australia from spinners, to weavers, knitters, dyers, finishers and all manners of CMT operations.

The industry employs over 55,000 Australians, has manufacturers sales of more than \$8 billion per annum and exports just under \$1 billion of product per annum. Australian households spend approximately \$20 billion on TCF products (4% of total household expenditure). Import growth of TCF products is slowing while export growth is beginning to rise.

China is the dominant source of imports of TCF products followed by New Zealand; Other significant trading partners include Thailand, Fiji and the European Union. In respect to exports New Zealand is the dominant destination for Australian TCF products followed by Hong Kong and Fiji.

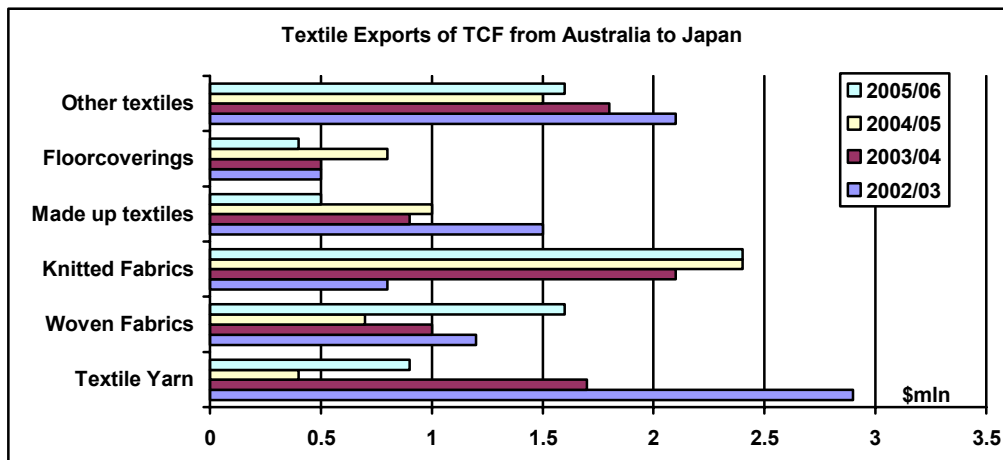
Analysis of trade data between Australia and Japan

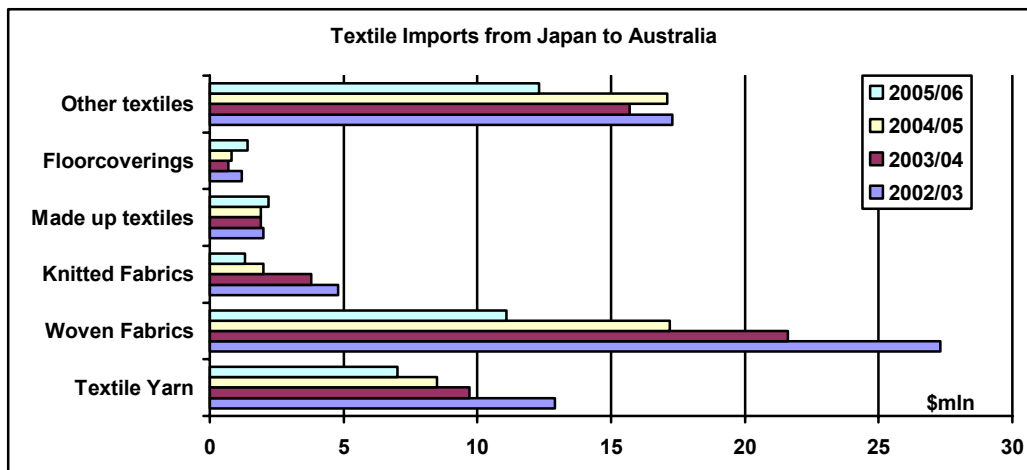
Australia exported \$12.1 million of TCF products to Japan in 2005/06, 5% higher than the previous year but 11% lower than exports in 2002/03. Of these exports textile products accounted for 60%, clothing 28% and footwear 12%.

Japan exported \$42.5 million of TCF products to Australia in 2005/06, 22% lower than the year previous and 40% lower than in 2002/03. In 2005/06 textile exports to Australia accounted for 83%, clothing 15% and footwear 2%.

This produced a trade deficit of \$30.4 million in 2005/06 significantly lower than the \$57.4 million in 2002/03.

The following graphs provide a breakdown of trade between Japan and Australia for broad TCF groupings for the period from 2002/03 to 2005/06.





In respect to textiles the graphs show that exports of Australian TCF products to Japan have fallen between 2002/03 to 2005/06 both in total and across all textile groups except woven and knitted fabrics. In respect to the former this entire rise has been in woven fabrics of man-made fibres offsetting a significant decline in woven cotton fabrics.

Between 2004/05 to 2005/06 only textile yarns, woven fabrics (man-made fibres) and special yarns and fabrics rose. This rise potentially reflects a move in the Japanese economy to more specialised fabrics and products and a move away from more traditional textiles and products.

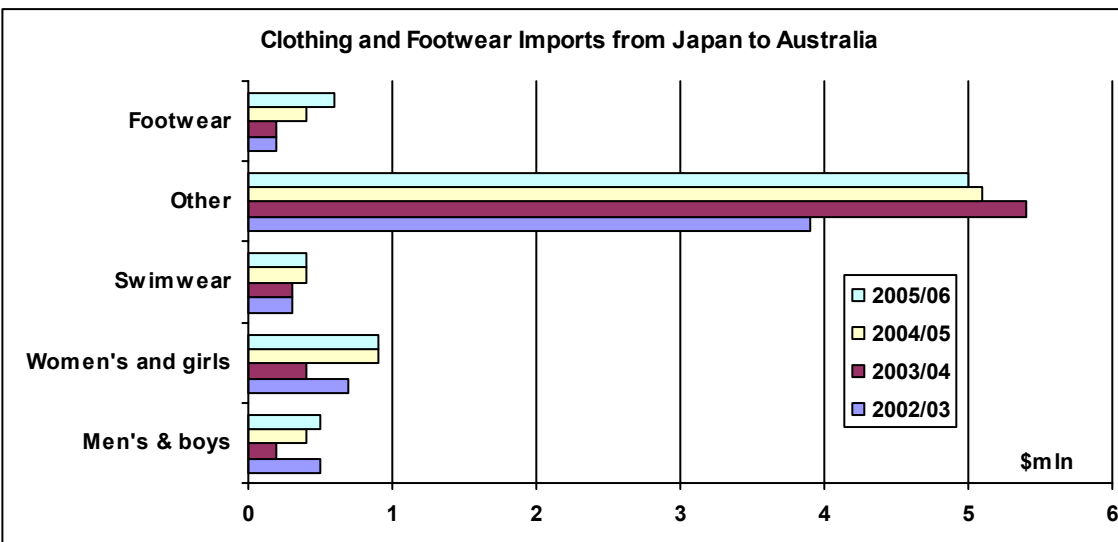
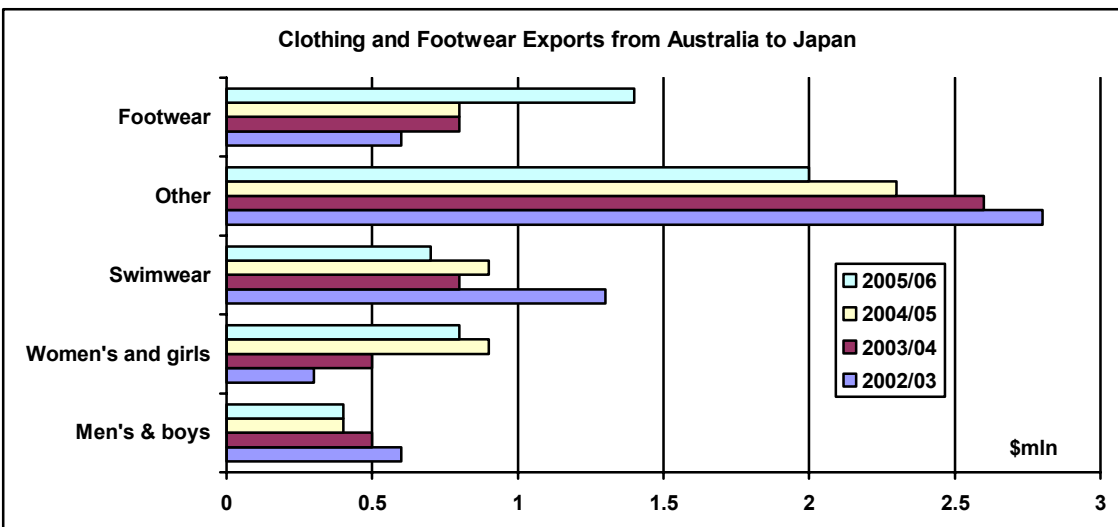
Textile imports from Japan to Australia have fallen considerably in total over the period 2002/03 to 2005/06. Falls were recorded in textile yarn, woven fabrics, knitted fabrics and other textiles. Marginal rises were recorded in made up textiles and floor coverings. Comparing 2004/05 to 2005/06 woven fabrics, made up textiles and floor coverings rose with all other groups falling.

In respect to exports of textiles from Australia knitted fabrics represent the largest share followed by woven fabrics and other textiles. Together these three groups accounted for 75% of total textile exports.

Looking at the same data for Japan shows that the bulk of textile exports to Australia are in the textile yarn, woven fabrics and other textiles sectors. These sectors accounted for 73% of the total.

In respect to clothing and footwear Australia exported \$4.8 million of product to Japan around \$1 million less than in 2002/03. As the graph shows all groupings of clothing except women's and girls declined over the four year period. Looking at the annual growth between 2004/05 and 2005/06 only men's and boys clothing and footwear recorded rises.

Exports of clothing and footwear from Japan to Australia totalled \$7.1 million in 2004/05 slightly higher than 2004/05 and their level in 2002/03. In respect to groupings men's and boys, women's and girls, swimwear and footwear all rose compared to their 2002/03 levels. In annual terms exports of clothing and footwear from Japan to Australia rose by around 60% with slight rises in men's and boys clothing, women's and girls, swimwear and footwear.



Reviewing the relative shares of each group in clothing and footwear shows that for both Australia and Japan the largest component of trade is other which includes clothing accessories of textile materials and headgear.

Tariffs

The TFIA welcomes the study group's conclusion that all options for flexibility including 'phasing', 'exclusion' and 'deferral for later negotiation' be available to negotiators. The level of tariffs applied by each country are critical for the success of any agreement.

The TFIA has a clearly stated position in respect to the treatment of tariffs under FTA's as follows:

- There is to be no reduction in TCF tariffs under a Free Trade Agreement below the current levels legislated under the Post-2005 Strategic Investment Program (SIP)



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- Where our trading partners tariffs are above those of Australia they are to reduce to the Australian level
- When tariffs in our trading partner are at Australian levels and the Australian tariff is at 5%, tariffs will be reduced by all parties to the agreement in line with one another. The rate of reduction is to be determined on a product by product basis and may be a zero for zero reduction or a phased reduction.

Under the Post-2005 SIP scheme the following tariff reductions are legislated:

	2005 - 2009	2010 - 2014	2015+
Clothing, finished textiles, household textiles	17.5	10	5
Cotton sheeting, woven fabrics	10	5	5
Sleeping bags, table linen	7.5	5	5
Carpets	10	5	5
Footwear	10	5	5
Footwear parts	7.5	5	5
Textile Yarns	5	5	5

As the table shows by 2015 all TCF tariffs will be at 5% by 2015 with most products reaching that level in 2010. Only clothing, finished textiles and household textiles will have a tariff above 5% during the 2010 to 2014 period.

As such the tariffs above show a clear path of phasing for TCF tariffs within the typical implementation timeframe of FTA's of eight to ten years. The TFIA believes that therefore the insulation of TCF from tariff reductions is not a rejection of free trade but simply pursuing a phasing path for TCF tariffs.

Non-tariff Barriers

The TFIA supports fair trade and seeks from the Government a commitment to ensure a level playing field under any agreement with Japan. For this to occur the FTA must place on the table all identified NTB's and provide provisions for their removal. We have seen in other agreements being negotiated that this has not been the case, such as China where the fixed exchange rate remains off the table for negotiations despite being identified by many manufacturing groups in Australia as a significant NTB.

The TFIA is therefore pleased to see that the Joint Study Group has agreed that there is merit in including non-tariff barriers and technical barriers to trade in the negotiations. We strongly urge that clear and transparent processes are included in any FTA which outlines to industry in both countries the path the removal of these barriers will take.

In respect to Japan the TFIA is following up with its members on a complete list of NTB's faced by them when entering the Japanese marketplace.



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Rules of Origin and Trade Remedies

The TFIA has a definitive position on Rules of Origin (RoO) under Free Trade Agreements as noted below:

A Change in Tariff Classification (CTC) approach to determine substantial transformation combined with a regional value content rule of 50% factory cost or 80% under the build-down methodology.

- In some cases a process rule may also be supported by the TFIA on specific products

The TFIA will not support:

- An either /or RoO
- Fabric forward or fibre forward RoO

The TFIA supports the study group recommendation that chapters on RoO and Customs Procedures must be included in the agreement to make it truly comprehensive.

In respect to trade remedies under the agreement the TFIA seeks a comprehensive chapter covering anti-dumping, safeguards and countervailing duties for aggrieved companies in both countries to use when required. These mechanisms must ensure that companies can access them effectively and efficiently particularly small and medium sized enterprises. They must also be proactive and consistent with WTO guidelines.

While Japan is a developed country with effective customs processes its proximity to countries where procedures may not be so formalised require significant processes to protect the interests of Australian TCF manufacturers. Chapters on RoO, Customs Procedures and Trade Remedies are critical in any agreement to ensure that trans-shipment does not occur.

Intellectual Property

As the TCF industry in Australia changes its operations to deliver tailored, niche products the protection of the Intellectual Property becomes critical under any agreement between the two countries. With an increasing level of design, training and testing activity being undertaken by Australian TCF companies IP is becoming a critical issue for the TFIA and its members.

The TFIA would welcome a chapter on IP that explores commitments beyond the WTO TRIPs agreement but takes this agreement as a minimum standard in respect to the FTA.

Additional information on IP breaches will be provided at a later stage.

Government Procurement

Any agreement must include Government Procurement and must offer companies from both countries a level playing field in respect to accessing procurement markets. Previous agreements have seen sectors carved off in the agreement partner whilst Australia has failed to carve any sectors out. In the case of Japan which is a signatory to the WTO Agreement on Government Procurement where Australia is not, Australian negotiators must at a minimum



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ensure Australian companies receive the same level of access as those covered by the WTO agreement.

In addition Japan has instigated voluntary measures that surpass the requirements of the WTO Agreement and we would expect Australian negotiators would also seek to have these included in any government procurement chapter in the agreement.

Many Australian companies are world leaders in the application of textile technology to specialised clothing and textile items such as protective equipment for Defence force personnel, fire fighters and police officers. Given the relatively small size of the market in Australia – made even smaller by the openness of Australian procurement policies to the world – these companies must pursue markets off-shore. Increasingly however FTA's negotiated by Australia exclude these areas of procurement.

An obvious example of this can be seen with the Australia-United States FTA which does not allow an exemption for Australian companies from the Berry Amendment – which governs defence procurement – despite Australia being one of the United States strongest military allies. Further, the TFIA understands that not all US states are yet to open up their procurement markets. Australia however has allowed full access for American companies to supply product to such sectors – indeed recent decisions by some Government departments have seen the entire process opened up globally regardless of FTA's in place.

While the TFIA notes that the study group did recommend a chapter on Government procurement it would urge negotiators and the government to insist on a government procurement chapter that is fully comprehensive and either allows full access to all aspects of Government procurement in each country or applies the same restrictions in each country.

In respect to Defence the TFIA notes that the Australian and Japanese Prime Ministers signed a Defence pact on 13 March 2007 and that unlike the United States this does not prohibit the exchange of defence products and materials between each country.

The TFIA will make further comment on this aspect of negotiations as it proceeds but recognises that Japan operates a competitive tendering system open to multiple countries – currently those listed under the WTO Agreement on Government Procurement – and thus may not require significant changes.

Other issues

In respect to an Australia-Japan FTA the TFIA would also seek the following two commitments from negotiators and the government:

- That a clear timetable and path for consultation with Australian industry is put into place ahead of substantive negotiations beginning'
- That industry is aware of the minimum criteria to be fulfilled for acceptance of any agreement.

Submission end