Mr. David Robertson
Commissioner
TCF Inquiry
Productivity Commission
P O Box 80
BELCONNEN ACT 2616

Dear Mr. Robertson,

Second Submission – Productivity Commission Inquiry into Post 2005 Assistance for the TCF Sector

This brief submission is provided to the Commission to assist in its deliberations towards a final report to the Government on or about 31 July 2003. The submission has been prepared after reviewing external reports concentrating on market access issues and also follows an independent survey of the effectiveness of the current Strategic Investment Program and the tariff commissioned by the TFIA. We have also considered as many of the new issues raised during the public hearing process as has been practical.

In the most general terms, the TFIA reiterates the need for a commercially viable approach to any adjustment of the assistance regime. It is acknowledged that the adjustment has been and under our proposal would continue to take place over an extended period of time. However, the rates from which the TCF sector has had to adjust clearly demanded in the past and continue to demand now a very different approach to business. This sector can, in the right policy environment, arrive at an end point with minimal Government assistance in place and a strong and viable future in a complex global TCF environment.

<u>The Tariff Rates</u>

The TFIA has submitted that the appropriate the appropriate course forward is a continuation of the policy mix of tariff and direct assistance. As will be reiterated a number of times, the TFIA is firmly of the view that the continuation of direct assistance along the lines of the current encouragement for strategic investment and continued strategic structural adjustment must be maintained through the period 2005 to 2015. In conjunction with this and in step with international market access reforms of a real and identifiable nature the Australian tariff may continue to reform as indicated over the page.

Current Rate	1 Jan 2005	1 Jan 2010	1 Jan 2015
25%	17.5%	14%	10%
15%	10%	7.5%	5%
10%	7.5%	5%	5%

As advised at the hearings, there are some sectors of the TCF (carpet and footwear) that have a different view on any commitment to further tariff phasing after 2010. They have already advised the Commission separately on these matters.

The TFIA has previously argued that the outcome from this review should provide for certainty and fairness for the industry. It is our view that the above approach to tariff reform achieves this outcome without excessive disruption to the industry. The end tariff points in 2015 are modest in respect of TCF terms and if trade patterns remained fairly constant, the 2015 average TCF tariff would be 6.25%, significantly closer to the average manufacturing tariff rate of 5% quoted by the Government. Not only will the tariff have been reduced substantially over a decade or more of change, but it will have been achieved in an environment of significant and gradual adjustment.

These tariff adjustments in the period post 2010 are subject to a commitment by the relevant authorities to examination and finding of the a closer market equilibrium of tariffs to ensure Australian industry is not faced with the inability to access markets offshore, while continuing to see their own domestic market share eroded. These comments apply equally to non-tariff barriers. Further comments on market access are included later.

Finally, in respect of the tariff phasing, there are also a number of views on the way in which the tariff should adjust. The TFIA view is that the tariff should be held stable over the period to 2010, then if the market indicators indicate a drop of the tariff from this rate to achieve a further opening up of the Australian market is warranted, then again the tariff should drop immediately to the ascribed 2010 level and be held steady till 2015 when the final adjustment of the tariff will come into place.

Future Direct Assistance Programs

As highlighted by the Commission, the continued adjustment of the tariff requires a commitment to budgetary support across that adjustment period. The TFIA believes that the adjustment period is integrally linked to international events in terms of the multilateral time frames and hence our time lines are focused around 2010 and 2015 outcomes.

In direct response to the Commission request for views on the possible approach at page 87 of their position paper, the TFIA advises:

- after July 2005, budgetary support be provided for a further period of 10 years;
- total funding for each of the years in the period above be set at the current SIP funding level equivalent.

The future program design should be based on the successful existing SIP scheme with some improvements. The TFIA does not support any turnover cap being placed on the scheme and insists only that those elements of the industry that were envisaged as the targets for the assistance mechanism in its design stages remain the target of future incentives.

The scheme must continue to support capital investment as provided for under the current mechanism, although an adjustment to 30% of expenditure may encourage an even greater level of capital expenditure.

The scheme funding should be used to set aside an amount per annum for application assistance to the smaller elements of the industry that have significant projects or investments relevant to their size yet are outside the current SIP criteria. We would suggest that this amount be capped at A$15M per year with any unspent sum rolled back into the main direct assistance program each subsequent year. Entities or associates that apply for assistance through the specific funds for smaller enterprises should be excluded from the major direct assistance program for the subsequent year.

This SME funding would normally entail projects involving external parties (which could be paid direct from the special fund) so it is probable that the 5% of sales cap may not be an issue.

There are statements that suggest the expenditure in the TCF sector on Research and Development is low. The TFIA agrees that the collected data supports this conclusion. However, it is our view and that of the majority of the textiles, clothing and fashion industry that the industry is innovative. The TFIA believes the traditional collection mechanisms to record R&D expenditure do not capture the bulk of activity.

This leads to the clearly identified need to address the issues of innovation that have been raised in a number of submissions and presentations to the Commission. There is a wide cross section of application of the SIP scheme across each of the sectors within the TCF industry. Some will claim that the current requirements are adequate in terms of the access to assistance for innovative activities. However there are others, particularly those involved in the visual end of the market, that find it extremely difficult to access the SIP type 2 grants for innovation. So it is clear from the clothing and fashion perspective that a real improvement is either to more properly accommodate the innovative product development (where the real problem seems to be) in the wider clothing and fashion industries or to develop an alternate mechanism for direct assistance determination for those entities. An alternative might be that we should concentrate on brand and market development activities for apparel as an addendum to any incentives for the design and manufacture end of the process. In either case, as we continue to look at future program design, the TFIA believes that outcomes must be the drivers for assistance.

It is also clear that the Type 4 and 5 grants under the existing scheme could do with some improvement. While there has been some discussion as to the appropriateness of inclusion of the assistance under the current capital and research and development grants criteria, this may become even more complex as the concept of type 4 and 5 involves more than one entity, whereas the existing types 1 and 2 are limited to one. This is not to say further investigation of this area with a view to simplifying and encouraging more activity is not warranted, but more that the major impediment to the use of types 4 and 5 reconfiguration would appear to be the regional requirement and not that the grant type is included in a separate area.

This is not to say that there should not be improvements in terms of the regional assistance that can be provided through any post 2005 scheme. The Commission has heard many propositions on the strengths and weaknesses of a regional location as opposed to a metropolitan choice. The TFIA view is that there can be an enhanced mechanism to offset any identified cost liabilities associated with regional activity. These could be quite varied and our view is that any such provision should not be based on a positive listing of identified detrimental issues but more an opportunity for regional enterprises to make application where they can clearly demonstrate and justify the adjustment assistance.

We would hope that incorporation of the above would add to the recognition of the valuable and integral role that the TCF sector plays in a number of sensitive regional areas.

Another aspect of the SIP scheme that we should comment on is the inclusion of value added within the scheme as a further grant type. It is our view that the value added aspect was included as it provided both industry and Government with the surety that those entities most likely to maximise their grant entitlement were also most likely to have significant local eligible activity. We note that there are inconsistencies in approach caused by some definitions of value added. However it is our view that it is better to continue the inclusion of value added as a separate identifiable grant component as opposed to removal of this incentive and replacement with a simple doubling of the entitlement rates under grant types one and two in its place. The TFIA is also of the view that the value added aspect to causing the grants to double is a mechanism that keeps in check the modulation that would otherwise occur due to a spread of the commissioning time and value add contribution from major equipment purchases. This ensures that the scheme would not become weighted more towards capital than other activities in any one year, and also allows the existing carry over of capital expenditure entitlements where the firm cap comes into play.

In terms of propositions to de-link type 3 grants a final aspect from the TFIA on this particular proposal cannot be responsibly presented until the industry has further discussions with the Government on the total funding pool that can be allocated. It could well be that allowing a 5% of value add claim for those companies that enter the scheme under the existing minimum threshold expenditure criteria could have no significant effect on the funding, particularly in terms of likely modulation. But the bottom line is at this point we do not know. There is a need to address the issues for the clothing and fashion areas and the de-linking is certainly a simple approach. But can the funding base stand it and would it possibly lead to the spreading of the funds too widely to make any significant difference at the enterprise level?

Very closely related to this is the discussion surrounding the appropriate rate to be applied in the value added grant determination in any future scheme. As mentioned above there are inconsistencies in outcomes across the sectors due to the varying capital to labour rates among other matters. This is reflected in the value added entitlement as determined under the current criteria, and there are a number of suggestions to raise the 5% cap on the current value add. While again without a clear indication of the funding available it is not possible to reach a final position, it is clear that the 5% cap does reflect an average of industry value added under the tests applied at the time of the previous scheme design. However, it is an average and in a complex and diverse industry such as this one, there are bound to be varying outcomes identifiable as the scheme settles in. This has been the case with the SIP and we will continue to examine the appropriate percentage to apply in these cases.

Having said this, it is clear that the scheme does try to operate across the spectrum of textiles, clothing, footwear and leather whereas there are quite different drivers and needs for these sectors. The simplest method to obtain grants under the existing SIP is through capital expenditure, however the clothing and fashion areas have a limited need for extensive capital programs (in fact there is also over supply of capacity in a number of textile areas) and we do see a far greater participation of textile firms to date in the scheme. While we are not in a position to finalise technical details it is quite probable that over the next few months the industry and the Government will look at methodologies to improve the effectiveness of the scheme whether it is in whole or in part aimed at reconfiguration and adjustment or encouragement of growth activities.

Most of the significant adjustments to come in the TCF sector will, on present indications, need to occur in the clothing sector. Hence, it is very important that any continuing scheme does not neglect the significant role played by innovative visual product development in the fashion and clothing sector, let alone other aspects of innovative textile design. This is not to say that the speed with which the developing countries in Asia (and possibly other parts of the world with the proliferation of the free trade agreements) are moving into other product lines would not alter the areas that are most subject to adjustment pressures.

Following from earlier comments, there is no doubt that the industry generally has begun to use the SIP incentives to adjust the way they approach their future positioning. Importantly, this has helped shift the focus from very marginal efficiency gains to larger longer term strategic issues such as brand building, complimentary products and market positioning to name but a few. This is not to say that the industry has given up on the ability or need to improve productive outcomes at the manufacturing end, but more that they are in our view in the main at the leading-edge of the most up-to-date manufacturing processes and further gains from this point are, without a great leap in technology, somewhat less than they are when starting from a lower base.

It follows that the supply chain should be encouraged by a Government scheme which instills more confidence in an expansion to pursue these brand and marketing issues at greater speed, both domestically and internationally. The development of a future assistance mechanism must take this into account, as the concept of a strong and viable domestic industry with an international focus by its very definition relies upon significant brand and market improvements in a lower assistance environment. This will mean that any post 2005 direct assistance mechanism will move towards achieving the most significant long term outcomes if it ensures that investment in demand driven activities are encouraged. We do however take the opportunity to reiterate the need for careful and timely adjustment mechanisms to reach this end points.

As also mentioned and linked to the above the environmental aspects of both manufacturing and marketing must be fully explored and supported. The current scheme does support the capitalised expenditure on environmental issues. However there are instances where the expenditure is on plant and equipment for environmental purposes but it is not capitalised.

Survey of TCF Industries

During the TFIA discussions with the Commission, we referred to an independent survey the TFIA had commissioned to quantify the industry outcomes on some core measures under different scenarios. The TFIA commissioned Denis Muller and Associates to undertake this research and together with Irving Saulwick and Associates they have now presented the final findings which are again attached.
The quantitative survey by telephone resulted in a total of 87 interviews being undertaken between 5 and 17 June 2003. The questionnaire was designed by the researchers.

The Commission can see clearly that the industry has responded positively to an operating environment as proposed by the TFIA in the period to 2015. This would allow the Government's end point of tariff reform to be achieved with the most positive prospects for the industry going forward.

Key findings were:

- 83% of respondents preferred the TFIA's preferred position compared to 7% of the commission's preferred option
- 80% of respondents indicated that the TFIA preferred approach would not lead them to decrease their workforce, while adoption of the Commission position would cause 50% of respondents to reduce their workforce;
- continued SIP type assistance as proposed by the TFIA would lead to a continued increase in investment for around 40% of respondents so long as it

was accompanied by the TFIA tariff reform program, whereas under the Commission preferred option only 17% indicated that they would increase investment;
- 25% of respondents claimed that they would increase their exports should the Government accept and implement the TFIA proposal, while the equivalent percentage under the Commission proposal was 16%;
- more than 40% of companies indicated that their research and development would increase under the TFIA proposal, and again the comparative percentage under the Commissions preferred option is 26%;
- More than half (51%) of respondents believed the Commission's preferred option would result in a decrease in jobs, whereas 20% indicated that the TFIA preferred approach would lead to job losses.

The research shows conclusively that the TFIA proposal in terms of certainty and fairness will lead to better employment and investment outcomes.

The TFIA invites the Commission to further discuss the survey approach if necessary.

<u>Government Purchasing</u>

A number of companies have raised the issue of the Australian Government purchasing policy at both the federal and state levels and the encouragement that is needed to ensure the most competitive and valuable Australian content in these sourcing decisions. There is little doubt that it is an enormous area of demand for textiles, clothing and footwear products. We should consider recommendations that match the Australian purchasing decision mechanism with that of other economies that are at a similar stage of development. There has been in the past a preference applied to the local supply alternative. However there are some indications that this is not necessarily applied uniformly across or within states and, secondly, whether it comes into play at all in certain instances.

<u>Competitive vs Entitlement</u>

The Commission inquiry has also touched on the issues of whether or not a scheme that continues post 2005 should be a competitive or entitlement scheme. We have mentioned above that the funding set aside for the smaller TCF companies should be assessed on a competitive basis. However, we are not convinced that this would necessarily work for the larger and more complex end of the industry.

This comment is based on industry past experience by trying to operate within a competitive scheme administered by a now defunct Government body. There is not, in our opinion, the ability to make clear assessment on the merits of one expenditure proposal or development proposal by a particular company as opposed to another direction pursued by a competitor. Who can make the judgement on the outcomes without the benefit of hindsight? As such, it becomes very much a subjective and presentational issue. The industry was keen to drift from these aspects as the determinants of success in funding applications last time these matters were raised, and although the industry has changed and will continue to change there is no indication of a movement in respect of this preference.

One other aspect of the competitive type approach that is of concern is that this system invariable leads to a leakage of scheme funds to a greater extent than would occur under an entitlements process. There is no doubt a mid-point that would allow an improvement to the existing process whereby the statement of strategic intent under the SIP scheme seems to have a lower priority than intended than when the scheme was being developed. All parties want to see the funds expended wisely, whether it be to encourage further growth and investment or to assist in the restructuring for a freer trade environment.

Market Access

The Commission has continued to hold the view that the lack of reform by other economies is not a reason to hold back our reform agenda. The TFIA would like to take the discussion a little further on a different track.

The industry has and continues to strive to further open-up the prospects for offshore growth. This is sought regardless of the adjustment to any domestic tariffs, as it is good business practice. Others, equally viable and strong businesses with clever strategies in place or ready to come on line as the tariffs continue to phase, are more focused on domestic market growth and increased demand or import replacement. Together, these approaches (which in many instances may both be found active within an entity) provide the base for the Australian industry sustainable level of activity. This ensures that not only are the individual plant mechanics assessed on the basis of efficiencies and economies of scale but the supply chain also works in a similar way. Machinery spare parts, specialist chemical advice, training advantages, etc, will also only be viable should that total quantity remain.

With this in mind, the industry is struggling to understand how the unilateral reductions in the Australian instance could lead to a better outcome overall if the export focused companies cannot obtain at least the volume of production that is lost due to the reduction in the Australian barrier arrangements. Surely, the market access achievements sought by those that are in a position to focus on this development offshore, must be a consideration in the overall efficiency of the Australian operations considered in total. The TFIA believes that a phased adjustment in step (not necessarily matching) with our major competition will avoid the crisis of economy that would otherwise occur.

It is in part with this in mind that the industry has continued to argue that there be a review in 2008 (or there about) of the reforms in tariff and non-tariff barriers that are being implemented as opposed to discussed by the regions economies. The other aspect to this is the element of fairness in policy approach and while we can readily concede that there are other tariff rates and assistance mechanisms in Australia that do not match those for the TCF sector, we do not operate in those sectors. Our sector is the global TCF sector, and this is subject to an enormous amount of market correction through various mechanisms. It is this comparison that should be made.

Enhanced market access provides the key platform for the TCF industry's future development. It is fundamental for the industry in the future to be growing on the basis of an export platform, especially as in the aggregate, the domestic market share will become more and more pressured as import penetration grows.

Australia has always been a major exporter of natural textile fibres, i.e. ginned cotton and wool (whether greasy, carbonised or scoured). However, as the raw material gets further processed, the level of export tends to decline. Nonetheless, exports of certain downstream products have increased significantly over the past 10 years.

While the bulk of Australia's exports are still destined for New Zealand, this is really little more than an extension of the domestic Australian market. However, other significant markets targeted for Australia's TCF exports are:

- USA (12.6% of total textile exports, 12.9% of clothing and 21% of footwear exports)
- Fiji (9.1% of textiles exports, but really for low cost make up of garments to be re-imported to Australia, 5.9% of footwear)
- Hong Kong (7.2% of textiles, 31% of clothing)
- UK (5.9% of textiles, 4.6% of clothing)

More importantly, China, Indonesia, Thailand, Korea, etc are all becoming increasingly important export destinations for Australian TCF product.

While the export propensity for different downstream product lines is not necessarily high, for many Australian companies and industry sectors an increased export focus is a vital strategy for future development and success.

However, the Australian industry's ability to break into overseas markets is seriously inhibited due to the wide scale control of TCF trade by all the major TCF producing countries around the world.

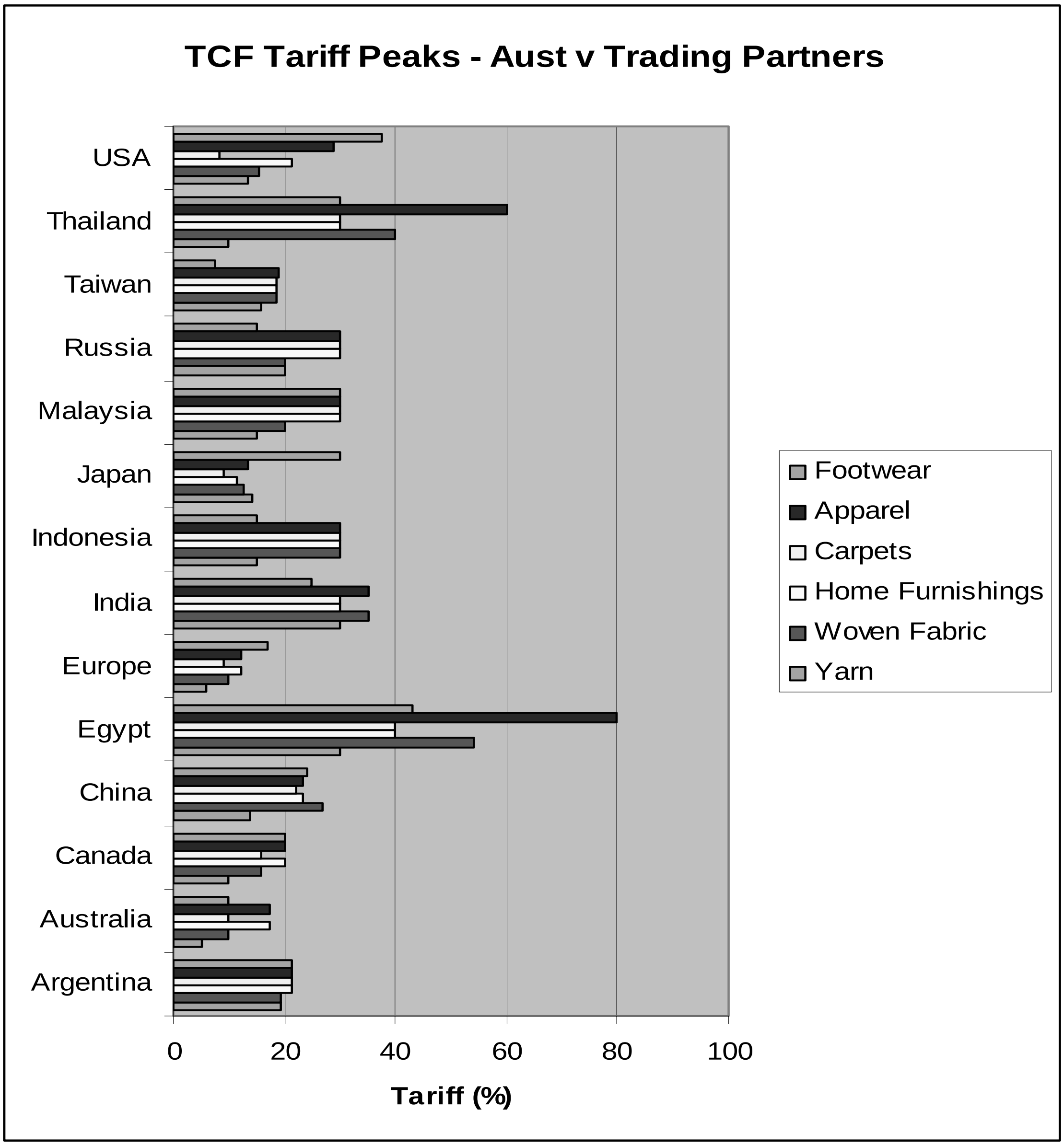
The extent of the trade barriers adopted by other countries and the implications of this on world trade, was highlighted in a recent report by Werner/Kreitals on Global TCF Market Access prepared for the TCFL Forum. A copy of this Report has been made available to the Commission.

The Werner/Kreitals Report confirmed that the global textile landscape is undergoing a major shift in production and supply as a result of the various global and regional trade agreements being negotiated and implemented.

The Report highlights that the global textile and clothing industries are not yet subject to free competition, and will not be even after 2005, with many significant tariff and non-tariff barriers still existing, even in so-called 'open economies'.

The Report noted that in the TCFL sectors, tariff rates are historically high. Despite tariff cuts during the Uruguay Rounds, tariff peaks remain common with the largest TCFL exporting countries having the highest tariffs to protect their own domestic markets. For example, most Asian countries report tariff rates for textiles in the range of 20% to 35%, and for clothing 30% to 50%.

The following graph illustrates the relative TCF tariff peaks between Australia and our major trading partners, and highlights that Australia's scheduled 2005 TCF tariffs will place Australia as one of the most open markets in the world.



NB: ***Australian tariffs as per schedule for 1 January 2005***
Source: ***Derived from Werner/Kreitals 2003 Report on TCF&L Market Access***

However, most other countries further restrict their domestic markets through a complicated series of various, but significant taxes and other Non-Tariff Barriers (NTB's).

The Werner/Kreitals Report highlights that NTB's have mushroomed all over the world during the past decade. All major TCF producing countries (developing and developed) have some forms of non-tariff protection. But it is the developing countries in particular that have introduced a wide and various range of NTB's to more than offset the impact of any tariff reductions that they may have introduced. For example:

- Argentina – Customs Clearance charges, i.e. 3% anticipated profits tax, plus restrictive marking and labelling laws (+21% VAT)
- Bangladesh –Burdensome customs procedures, plus clearance charges – ie 2.5% advance income fee, + 2.5% import permit fee, + 2.5% infrastructure development surcharge (+15% VAT)
- China – Use of official "reference price lists" to increase actual applied tariff charges, discriminatory quality testing procedures, arbitrary marking and labelling, etc (+17% VAT)
- Egypt – Arbitrary and non-transparent duty valuations, internal taxes and charges, i.e. up to 30% for customs valuation surcharge, +6% inspections fee, etc (+25% sales tax)
- India – Excessive demurrage charges, varying taxes based on volume/size of product, 4% customs service duty, restrictive marking requirements, etc (+16% VAT)
- Indonesia – Lengthy and non-transparent customs approval process, up to 45% luxury tax on certain TCF products
- Korea – 10%-20% luxury tax
- Taiwan – 0.5% harbour construction fee
- Thailand – Arbitrary Customs Valuations for duty purposes, luxury taxes, etc
- USA – Compulsory but burdensome customs documentation, excessive marking and labelling, restrictive government procurement requirements (favouring local supply)

Moreover, virtually every country maintains some sort of subsidy or grant to assist its domestic TCF sector, with the most common types being:

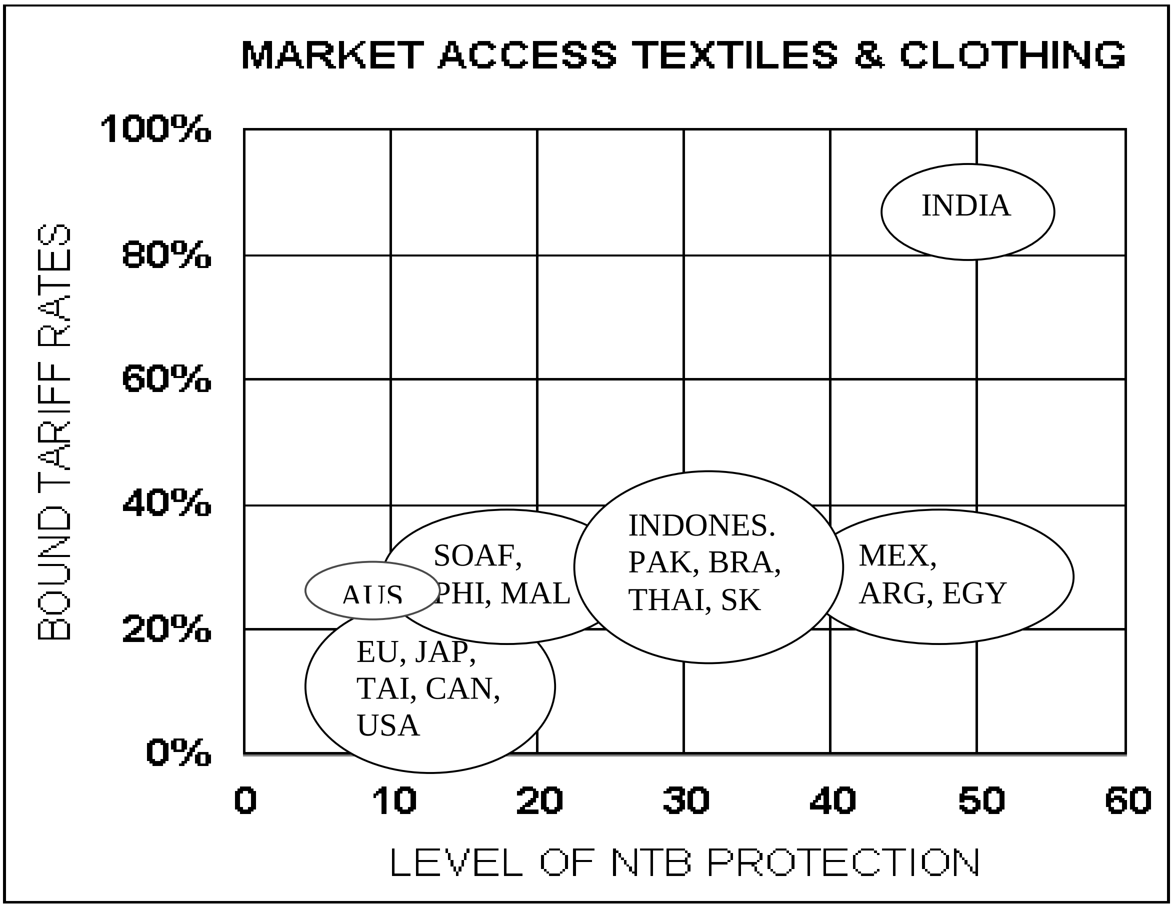
- direct subsidies/grants
- subsidies/grants according to the level of new jobs created
- subsidies/grants for training and R&D
- exemption from import duties, fees
- tax incentives, tax holidays, accelerated depreciation, exemption from VAT, luxury taxes, …
- duty drawbacks
- export rebates
- grants, subsidies, etc. for companies in export zones
- access to low interest rates

- support to investments and modernisation
- participation in textile companies in low developed countries
- horizontal support measures :
- environmental programs
- reduction of social contribution for low/non-educated workers
- support programs for female employment
- provision of subsidised energy, water
- regional development programs
- agricultural support programs

Specific subsidies that have had a significant impact on world trade include:

- The US Farm Bill which provides bounties for cotton production and cotton processing (including spinning)
- China's direct support of extremely inefficient State-Owned Enterprises
- Korea's indirect over-financing of various textile operations through a series of cross links between enterprises and the recent replenishment of bank reserves by the Korean Government when already inefficient loan patterns to the industry collapsed
- The automatic support arrangements in Japan, where perhaps half or more of the loans to the textile industry are "non-performing"

In light of these global arrangements, it is clear that Australia already has one of the most open economies in the world, as highlighted by the following chart from the Werner/Kreitals Report:



Source : WTO, Euratex, Werner

Given the above summary and the detail in the report provided, the TFIA asks the Commission to again consider the issue of further reform post 2010 in Australia when these other indicators may prove, upon examination, that any adjustment in Australian arrangements would widen the gap even further.

Other Issues

TFIA offers the following comments on more general issues raised in the position paper:

Policy By Laws

- The TFIA agrees that the current policy by-laws do not need amendment at this point as part of this review, although there remains a need to address issues arising on a case by case basis with these instruments;

Expanded Overseas Assembly Scheme

- While the Expanded Overseas Assembly Provisions Scheme has not been engaged by the industry to the extent envisaged by the Government, the industry is not overly surprised;
- The Government expectations of industry participation were based on the success of the schemes counterparts in the EU and the USA. However, these markets have significant domestic quantitative import restraints that do not apply to products manufactured under their EOAP equivalents;
- As the Australian tariff reduces to 17.5% on 1 January 2005,it is difficult to improve upon the current mechanism, other than to suggest wider applicability may be appropriate;
- It is quite probable that allowing total duty free entry of EOAP products may lead to an increase in activity;
- There could also be a factor applied to EOAP imports that developed a duty credit to encourage the internationalisation of the Australian markets through further duty free imports of apparel, garments or textiles of the same nature as the EOAP import;

The Tariff Concession System and Excluded Goods Schedule

- We support the recommended removal of the 3% duty applied to raw materials imported under a tariff concession;
- We do not agree with the need to amend the Excluded Goods Schedule within the Tariff Concession System;
- The practical experience of the TFIA in the dealing with this mechanism enforces the status quo as the appropriate policy;
- The evidence provided to the Commission during the public hearings on this issue approached the matter from a reverse angle;
- The matter is not whether the Australian industry makes a particular type of footwear specifically, but whether that footwear can be described and secondly, whether it can be enforced;
- Sporting footwear is a subjective notion, regardless of the presentation put to the Commission, and the concept applies equally to apparel which is also for good reason on the excluded goods schedule;

- The local industry do make product that is and can be used for particular uses. However , the importers import products that they describe as sporting footwear but in reality are put to uses that substitute for domestically made products;
- Do not change the EGS;

  <u>Anti Dumping</u>

- The TFIA supports the recently introduced proposed amendments to the Customs Act for the purposes of rectifying the assessment of normal values for goods exported from economies in transition;
- We do not agree with the Commission that sporadic shipments undermine the ability of the anti-dumping laws to rectify the issues they are designed to counter. Even if the shipment that has led to the initiation of the investigation has long gone, there are provisions within the law to ensure that future shipments from the country are at prices that reflect the normal values;

<u>Free Trade Agreements and LDC's</u>

The Commission made note during the hearings that the industry should be more aware of the announcements made by the Government in respect of the less developed countries and the granting of significant tariff preferences to these countries. The TFIA supports moves to assist these LDC's. However, we did request that given the Commission's findings in their paper on the economic impact of the decision by the Government, we keep a close watch and be consulted on the rules of origin to apply in this case.

We have seen the rules only recently as they have been kept under wraps for some time. There is some clarification to be sought. But it would appear on our initial reading that the rules allow 75% of the content from non-LDC countries to enter Australia duty free as the raw materials in a finished product exported from a LDC. This was far from the intent and we are seeking clarification and if necessary, amendment to ensure that the major advantage from this proposal is in fact to the parties to the agreement.

There are similar issues with the other FTA's being pursued by the Government at present and while the consultation and discussions with the Government representatives on the USA FTA have been significant and inclusive, the same cannot be said for the Thai negotiations. At present, the TFIA is trying to clarify if indeed an initial offer of free trade or phasing has been made to Thailand in respect of TCF goods without any detailed discussion of what and where these offers may impact.

The TFIA has supported the Singapore, USA and LDC initiatives and will continue to work through them. They do however provide an even more complex environment within which to determine the appropriate adjustment mechanisms for this sector.

In concluding the TFIA would welcome any further inquiries from the commission on the issue raised in this paper or other areas of concern.