



Mr David Rumble
Trade Analysis Section
Department of Foreign Affairs and Trade
RG Casey Building
John Mc Ewen Crescent
BARTON ACT 2601

Dear Mr Rumble,

Thank you for the opportunity to comment and apologies for the delay in sending through this note.

By way of background, the Carpet Institute of Australia Limited (CIAL) is a non-profit industry association dedicated to the development of the Australia's \$1.75 billion carpet industry. Formed in 1967, the CIAL represents carpet manufacturers as well as suppliers of goods and services to the carpet industry. The Institute's members account for 95% of Australian carpet production and about a third of related retail activity.

Our comments are as follows:

Tariffs

Australian tariffs on machine made carpet are currently 15% and will fall to 10% on 1/1/2005. Under the Government's new TCF Plan, the carpet tariff is scheduled to step down to 5% in 2010. Malaysia's tariffs for machine made carpet currently stand at 25% for broadloom, 20% for tiles, and 25% for "other" carpet (ie not woven or tufted).

Trade Data

2-way trade in carpet is very limited at present, as can be seen from the following data.

Carpet Imports from Malaysia, 2003/04

| | Quantity (sqm) | Value (\$A) |
|--------------------------------------|----------------|-------------|
| Total carpet imports from Malaysia | 124,000 | \$467,000 |
| Total carpet imports (all countries) | 12.8 m | \$157 m |

Australian Exports to Malaysia, 2003/04

| | Quantity (sqm) | Value (\$A) |
|--------------------------------------|----------------|-------------|
| Total carpet exports to Malaysia | 33,000 | \$895,000 |
| Total carpet exports (all countries) | 4.5 m | \$70 m |

Our members have an open mind about the proposed free trade agreement. Some see little prospect of exporting to Malaysia because they produce mainly synthetic products and Australia is not internationally competitive in that segment of the market. In contrast there are niche opportunities for the export of premium wool carpet which we hope would be facilitated if Australia and Malaysia enter into a preferential trade arrangement.

Following a major Productivity Commission review the Federal Government announced last November a new 10-year plan for the TCF sector which includes reducing the carpet tariff from the 1/1/05 rate of 10% to 5% in 2010. Consistent with this decision and the phasing profile agreed for TAFTA, the Institute strongly believes that any FTA with Malaysia should gradually phase down tariffs as follows:

| | Current | Recommended phasing | | | | | |
|-----------|----------------|----------------------------|------|------|------|------|------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Australia | 15 | 10 | 10 | 10 | 8 | 5 | 0 |
| Malaysia | 25 | 20 | 16 | 10 | 8 | 5 | 0 |

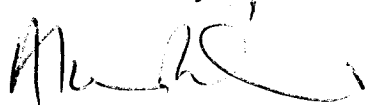
There should be no additional margin of preference for Malaysia and certainly no special allowance for non-indigenous developing content preference, as was granted under TAFTA.

In relation to rules of origin, the Institute's preference would be to adopt the ANZCERTA RoO ie a physical transformation requirement expressed as performance of the last process of manufacture; and a regional value content requirement expressed as a proportion (50%) of factory cost. If the Governments decide to adopt the Change of Tariff Classification (CTC) approach, then we would insist upon a regional content threshold equivalent to the current ANZCERTA threshold.

We would expect that any FTA would seek to remove non-tariff barriers and introduce appropriate safeguards to ensure that the Australian carpet industry is not adversely affected by any surge imports from Malaysia.

The Institute has a major interest in the study and would be pleased to support your efforts in any way we can.

Yours sincerely



Allan Firth
Executive Director
Carpet Institute of Australia Ltd
24 November 2005