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P.5/8



The Hon Chris Bowen MP
Assistant Treasurer
Minister for Competition Policy and Consumer Affairs

Gary Banks
Chairman
Productivity Commission
Locked Bag 2, Collins St East
Melbourne VIC 8003


Dear Mr Banks

I am writing to convey my agreement to a request from the Head of the Review of Australia's TCF Industries (the review), Professor Roy Green, for the Productivity Commission to provide modelling assistance to the review, pursuant to Section 20 of the *Productivity Commission Act 1998*.

I ask that the Commission undertake modelling and sensitivity analysis of the economy-wide effects of future assistance options as suggested by Professor Green in his letter, a copy of which I have enclosed for your information. The Commission should feel free to consult with the review secretariat directly to discuss the details of the task and I have notified Professor Green of this accordingly.

I note that Professor Green has requested the opportunity to discuss the presentation of the modelling results with the Commission. I understand that Professor Green and representatives of his secretariat will be invited by the Commission, along with independent referees and Treasury representatives, to take part in the technical workshop on this topic. In keeping with the Commission's charter, the final content and structure of the Commission's report is entirely its responsibility.

I ask that the Commission report to the Government with its findings by the end of June 2008. The Commission's report should be made public at that time.

Yours sincerely


CHRIS BOWEN

enc.

cc: Treasurer; Minister for Innovation, Industry, Science and Research

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REVIEW OF THE AUSTRALIAN TEXTILE, CLOTHING & FOOTWEAR INDUSTRIES

innovation.gov.au/tcfreview

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Dear Assistant Treasurer

On 8 March 2008 the Minister for Innovation, Industry, Science and Research, Senator the Hon Kim Carr, announced a comprehensive review of the Australian Textile, Clothing and Footwear (TCF) industries. Senator Carr announced that I would conduct the review.

In announcing the Review, Senator Carr noted that the Government would separately request the Productivity Commission to undertake modelling on economy-wide effects of future assistance options, and that this would be released publicly to help inform the examination of the industry and the Government's deliberations in this area.

As such, I am writing to inform you of the policy options that I would like the Government to ask the Productivity Commission to model. The policy options cover a number of scenarios from changes to tariff protection on TCF lines, to changing the type and amount of Government assistance.

At the outset, I would like the base-case scenario to be the current TCF industry support arrangements. Thus the base case for tariff reductions is:

	2005	2010	2015
Clothing and finished textiles	17.5%	10.0%	5.0%
Cotton sheeting and fabrics	10.0%	5.0%	5.0%
Sleeping bags, table linen	7.5%	5.0%	5.0%
Carpet	10.0%	5.0%	5.0%
Footwear	10.0%	5.0%	5.0%
Footwear Parts	7.5%	5.0%	5.0%
Other (eg yarns, leather)	5.0%	5.0%	5.0%

The base case scenario would also include the current tariff arrangements under Australia's negotiated Free Trade Agreements and would also include the current five programs and tariff pause announced under the TCF Post-2005 Assistance Package.

In addition to the base case outlined above, we request that the Productivity Commission model the following scenarios.

1. Maintaining the current schedule of tariff cuts and discontinuing the current TCF Post-2005 support arrangements on 1 January 2010.
2. Maintaining the current schedule of tariff cuts and introducing a new assistance package at the level of the current TCF Post-2005 support arrangements.
3. Maintaining the current tariff arrangements at 2005 levels (i.e. tariff freeze) but discontinuing the current TCF Post-2005 support arrangements on 1 January 2010 (as it is a structural adjustment measure).
4. Maintaining the current tariff arrangements at 2005 levels (i.e. tariff freeze) and introducing a new assistance package at the level of the current TCF Post-2005 support arrangements.
6. Reducing Clothing and Finished Textiles tariff lines to 10 per cent, the remaining tariff lines to 7 per cent (excluding the Other category which would remain at 5 per cent) on 1 January 2010 and introducing a new assistance package at the level of the current TCF Post-2005 support arrangements.
7. Maintaining the base-case scenario but increasing the exchange rate to \$A/\$US parity.

We believe it is important for the modelling to include specifications that will enable the Review to consider features of the industry and impacts of policy settings that may emerge from analysis conducted during the Review. This will enhance the value of the modelling to the Review's deliberations. In addition to your standard assumptions, we request that in modelling the scenarios above, the Productivity Commission include a sensitivity analysis which:

- a) Assumes that the pass through of tariff reductions to consumers is less than 100 per cent by also modelling a 50 per cent and 10 per cent pass through of tariff reductions to consumers. That is, model the situation in which some of the gains from tariff reductions are retained by retailers rather than passed on to consumers.
- b) Assumes that the impact of the provision of assistance to the TCF industries delivers increased innovation, and in turn increases in labour and capital productivity by 0.5 per cent above trend and 1.5 per cent above the economy wide trend increases.
- c) Assumes that 10 per cent and 30 per cent respectively of the TCF workforce that is otherwise assumed to find employment in other industries as a result of tariff reductions permanently leaves the labour force. That is, model the effect of a reduction in the quantity of employed labour on aggregate output and consumption.

The specifications outlined above will provide the review with important additional information to that which would be provided by a modelling analysis based on the conventional assumptions of 100 per cent pass through, zero percent productivity gains from assistance and full employment. The ability to analyse the impact of these

assumptions against the conventional assumptions will significantly assist the Review.

We would appreciate the opportunity to discuss the presentation of the modelling results to ensure that the variables of most interest to the Review, including the impact of alternative policy options on different regions in Australia, are presented, and contextualised, in the manner best suited to our Review.

I have no objection to the Productivity Commission publicly releasing this letter or the letter from you tasking the PC with modelling the economic effects of the different policy options.

Thank you for the opportunity to provide input on this modelling which will help develop effective strategies to ensure Australia's TCF industries will be vibrant, innovative and competitive well into the future.

Yours sincerely



Professor Roy Green
Reviewer
Review of Australia's TCF Industries

7 May 2008

cc Senator the Hon Kim Carr
Minister for Innovation, Industry, Science and Research
Parliament House
CANBERRA ACT 2600

cc The Hon Wayne Swan MP
Treasurer
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House of Representatives
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