THE TEXTILES, CLOTHING AND FOOTWEAR INDUSTRIES

VOLUME 1: REPORT

INDUSTRY COMMISSION

Report No. 59

9 September 1997
© Commonwealth of Australia 1997

ISBN 0 646 33525 1

This work is copyright. Apart from any use as permitted under the Copyright Act 1968, the work may be reproduced in whole or in part for study or training purposes, subject to the inclusion of an acknowledgment of the source. Reproduction for commercial usage or sale requires prior written permission from the Australian Government Publishing Service. Requests and inquiries concerning reproduction and rights should be addressed to the Manager, Commonwealth Information Services, AGPS, GPO Box 84, Canberra ACT 2601.

Enquiries
Industry Commission
35 Collins Street
Melbourne 3000
Locked Bag 2
Collins Street East Post Office
Melbourne VIC 8003


Acknowledgments

The Commission is grateful to all those who provided written submissions or otherwise assisted it during the conduct of the inquiry. These inputs enhanced the Commission’s understanding of the circumstances facing the textiles, clothing, footwear and leather industries.

The Commission also wishes to thank the members of the staff team for the dedication and professionalism which they brought to bear in the preparation of this report within a tight timetable.
[LETTER to TREASURY INSERTED HERE]
For the purposes of this inquiry and draft report, in accordance with Section 41 of the Industry Commission Act 1989, the powers of the Industry Commission have been exercised by:

John Cosgrove Presiding Commissioner

Richard Snape Associate Commissioner

Phillip Brass Associate Commissioner

Mr Brass has advised the Commission that he holds shares in Pacific Dunlop Ltd and is currently Chairman of N M Rothschild & Sons (Australia) Pty Ltd, a holding company for Arrow Development Capital Fund which holds an interest of 20 per cent in Australian Leather Holdings.
TABLE OF CONTENTS

The report comprises two volumes. Volume 1 contains the Overview and the body of the report. Volume 2 comprises supporting appendices.

VOLUME 1: REPORT

<table>
<thead>
<tr>
<th>Abbreviations</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>XVII</td>
</tr>
</tbody>
</table>

REPORT OUTLINE

Terms of reference | XXI |
Commissioner’s views | XXIII |
Overview | XXV |
Alternative analysis: Mr P. Brass — Overview | LVII |
Recommendations | LXVII |
Recommendations of all Commissioners | LXVII |
Recommendations of Mr Cosgrove and Professor Snape | LXIX |
Recommendations of Mr Brass | LXX |

PART A: CHANGING COMPETITIVENESS OF TCF INDUSTRIES

1 Toward an internationally competitive TCF sector

1.1 A decade of change | 1 |
1.2 The changing size and composition of the industries | 3 |
### 1.2.1 Adjustment so far

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3 Australia’s international TCF trade performance</td>
<td>10</td>
</tr>
<tr>
<td>1.3.1 Changing sources and destinations of trade</td>
<td>14</td>
</tr>
<tr>
<td>1.4 Taking advantage of Australia’s strengths</td>
<td>16</td>
</tr>
<tr>
<td>1.4.1 Natural advantages</td>
<td>16</td>
</tr>
<tr>
<td>1.4.2 Labour costs and productivity</td>
<td>19</td>
</tr>
<tr>
<td>1.4.3 Investment</td>
<td>27</td>
</tr>
<tr>
<td>1.4.4 Investing in technology</td>
<td>32</td>
</tr>
<tr>
<td>1.4.5 Institutions and infrastructure</td>
<td>40</td>
</tr>
<tr>
<td>1.5 Questions of scale and scope</td>
<td>42</td>
</tr>
<tr>
<td>1.5.1 Firm size</td>
<td>42</td>
</tr>
<tr>
<td>1.5.2 Size of the domestic market</td>
<td>44</td>
</tr>
<tr>
<td>1.5.3 Interdependencies along the supply chain</td>
<td>46</td>
</tr>
<tr>
<td>1.6 Business strategy</td>
<td>47</td>
</tr>
<tr>
<td>1.6.1 Management</td>
<td>50</td>
</tr>
<tr>
<td>1.6.2 Innovation</td>
<td>52</td>
</tr>
<tr>
<td>1.6.3 Specialisation</td>
<td>54</td>
</tr>
<tr>
<td>1.6.4 Quality and brands</td>
<td>57</td>
</tr>
<tr>
<td>1.6.5 Alliances</td>
<td>58</td>
</tr>
<tr>
<td>1.6.6 Quick response</td>
<td>60</td>
</tr>
<tr>
<td>1.6.7 Flexibility</td>
<td>62</td>
</tr>
<tr>
<td>1.7 Conclusion</td>
<td>63</td>
</tr>
</tbody>
</table>

### 2 World trends in TCF production and trade

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Changing global trade patterns</td>
<td>67</td>
</tr>
<tr>
<td>2.1.1 Exports</td>
<td>67</td>
</tr>
<tr>
<td>2.1.2 Imports</td>
<td>71</td>
</tr>
<tr>
<td>2.2 Adjustment by TCF industries in developed economies</td>
<td>73</td>
</tr>
<tr>
<td>2.2.1 Changing trade shares</td>
<td>74</td>
</tr>
<tr>
<td>2.2.2 Changes in employment</td>
<td>76</td>
</tr>
</tbody>
</table>
2.3 Adjustment responses in developed countries 77
2.4 Conclusion 84

**PART B: LABOUR MARKET AND MICROECONOMIC REFORM**

3 Labour market issues

3.1 Introduction 85
3.2 Employment trends and characteristics of the workforce 86
   3.2.1 Changes in TCF manufacturing employment 86
   3.2.2 Distribution of TCF manufacturing employment 91
   3.2.3 Workforce characteristics 95
3.3 Industrial relations 97
   3.3.1 Awards 98
   3.3.2 Enterprise agreements 101
   3.3.3 Redundancy provisions 103
3.4 Training 107
   3.4.1 Skill gaps 107
   3.4.2 Government provision 110
   3.4.3 Coordination of training provision 113
   3.4.4 Industry participation in training 115
   3.4.5 Proposals for improvement 116
3.5 Homeworking in Australia’s TCF industries 120
   3.5.1 Structure of TCF homework 120
   3.5.2 Significance and extent of TCF homework 121
   3.5.3 Remuneration 123
   3.5.4 Occupational health and safety issues 125
   3.5.5 Supply issues 126
   3.5.6 Responses to TCF homework 126

4 Adjustment issues

4.1 Employment trends 130
4.1.1 Projected employment trends in TCF manufacturing industries 130
4.1.2 Economy-wide employment trends 131

4.2 Mobility issues for TCF workers 134
4.2.1 General labour mobility in Australia 134
4.2.2 Movement within and between TCF and other industries 135
4.2.3 Movement out of TCF employment 136

4.3 Regional issues for TCF employment 141
4.3.1 TCF employment in suburban locations 141
4.3.2 TCF employment in regional locations 142
4.3.3 Employment assistance in regional locations 145

4.4 Removing impediments to employment adjustment 148
4.4.1 Labour market reform 149
4.4.2 Social welfare 151
4.4.3 Enhancing labour mobility 151

4.5 Employment assistance programs and services 152
4.5.1 Types of employment assistance programs 153
4.5.2 Effectiveness of employment assistance programs 154
4.5.3 TCF Labour Adjustment Package 157
4.5.4 General labour market programs in Australia 161
4.5.5 The case for industry-specific employment assistance 165
4.5.6 The role of the employer in the event of retrenchment 166

4.6 English language and literacy training 168
4.6.1 English language and literacy training for employees 168
4.6.2 English language and literacy training for jobseekers 169
4.6.3 English language and literacy training for recently arrived migrants 170
# 5 Taxation and regulation issues

5.1 Tax issues 173
   5.1.1 Payroll tax 175
   5.1.2 Wholesale sales tax 181
   5.1.3 Depreciation allowances 184
   5.1.4 Non-compliance 187

5.2 Regulation in the TCF industry 188
   5.2.1 Environmental regulation 188
   5.2.2 Other regulation issues 196
   5.2.3 Business inputs 198

5.3 Summary 199

## Part C: Assistance Issues

# 6 Australia’s TCF trade measures

6.1 Tariffs 200
   6.1.1 The level of assistance 200
   6.1.2 The TCF tariff structure 203
   6.1.3 Tariff duty paid 206
   6.1.4 Preferential tariffs 208

6.2 Concessional entry 215
   6.2.1 Policy by-laws 215
   6.2.2 Tariff Concession System 217

6.3 Effective assistance 218
   6.3.1 The effect of the policy by-law system 219

6.4 Overseas Assembly Provisions Program 222
   6.4.1 US and EU schemes 222
   6.4.2 TCF OAP Program 224

6.5 Summary 229
7 Trade barriers in other countries

7.1 Textile and Clothing Quotas 232
  7.1.1 The Multi-Fibre Arrangements 232
  7.1.2 Agreement to phase out quotas 234
  7.1.3 The special cases of China and Taiwan 236
  7.1.4 Economic effects of quotas 237

7.2 Effects on Australia 239
  7.2.1 Australian exports not restricted by quotas 239
  7.2.2 Effect of quotas on the flow of imports to Australia 240
  7.2.3 The effect on wool 242
  7.2.4 Continuing trade liberalisation 244

7.3 Tariffs as barriers to global trade in TCF 247
  7.3.1 Tariffs in developed countries 247
  7.3.2 Bound tariff reductions agreed for TCF 251
  7.3.3 Tariffs in developing countries 252
  7.3.4 Effect of tariffs on Australia’s exports 254

7.4 Other factors affecting Australia’s market access 255
  7.4.1 The Asia Pacific Economic Cooperation (APEC) forum 255
  7.4.2 Non-tariff barriers affecting trade 257
  7.4.3 Cotton 259
  7.4.4 Hides and leather 260

7.5 Summary 262

8 Government programs to improve competitiveness

8.1 Introduction 263

8.2 Objectives of the Industries Development Strategy 268

8.3 Capital grant schemes 269
  8.3.1 Effect on the industries 272

8.4 TCF infrastructure and management improvement assistance 279
8.4.1 Effect on management and education 280
8.5 Effectiveness of TCF 2000 Development Strategy 281
8.6 Observations on the TCF Development Strategies 283
  8.6.1 Appropriateness of program goals 283
  8.6.2 Program effectiveness 284
  8.6.3 Efficiency of administration 286
8.7 General Commonwealth assistance 290
8.8 State and local government assistance 291

9 The Import Credit Scheme
  9.1 Objectives of the Scheme 293
  9.2 Operation of the Scheme 294
    9.2.1 Use 295
    9.2.2 Administrative arrangements 296
  9.3 Effects of the Scheme 301
    9.3.1 Effects on TCF companies 301
    9.3.2 Evidence of the effects on TCF industries 306
    9.3.3 Economy-wide effects 312
  9.4 The future of the ICS after 2000 312
    9.4.1 A cost-effective stimulus to exports? 313
    9.4.2 Is a replacement scheme possible? 314
    9.4.3 Would a replacement scheme be desirable? 316

10 The path of assistance reform
  10.1 The path to 2010 319
  10.2 Industry snapshot 320
  10.3 The costs of protection 322
    10.3.1 The effects of past high levels of protection 322
    10.3.2 Economic effects of tariffs 325
    10.3.4 Tax effects 329
  10.4 The assistance reform path 330
10.4.1 The benefits of unilateral tariff reduction 332
10.4.2 Tariff pause 333
10.5 Budgetary assistance 339
  10.5.1 Manufacturers’ concession 341
  10.5.2 Production bounty 343
  10.5.3 Innovation 345
  10.5.4 Redundancy allowances 346
10.6 Conclusion 348

**PART D: CONCLUSIONS AND RECOMMENDATIONS**

11 Future assistance arrangements

11.1 The new policy environment for Australia’s TCF sector 350
11.2 Towards a more predictable environment 351
11.3 Tariff reform options 352
  11.3.1 Option 1: Steady tariff reduction on all TCF products to 5 per cent by 2008; policy by-laws abolished in 2008. 353
  11.3.2 Option 2: Tariff reduction on clothing and footwear to 5 per cent by July 2008; zero tariff on intermediates from July 2001; textiles and yarn bounty from 1 July 2001 to 2008. 355
  11.3.3 Option 3: Top tariffs down to 15 per cent, then reducing to 5 per cent by 2008 357
  11.3.4 Preferred option 358
11.4 Overseas Assembly Provisions Scheme 360
11.5 Effects of tariff reductions on the economy 361
11.6 Adjusting to the new policy environment 364
  11.6.1 Adjustment assistance for employees 365
  11.6.2 Regional adjustment issues 367
  11.6.3 Further adjustment assistance for companies 368
11.7 Other measures 369
11.7.1 Training 369
11.7.2 Research and development and information networking 369

**PART E: MR BRASS’ ALTERNATIVE ANALYSIS**

12 Context of my alternative analysis

12.1 My background in TCF: perspective on the IC’s inquiry 373
12.2 Agreement on the end point of TCF reform initiatives 374
12.3 The IC draft report and Monash model projected high benefit/low cost unilateral tariff reform 375
12.4 The IC draft report analysis and model called into question 375
12.5 The IC draft report strategy will ultimately be low benefit/high cost 376
12.6 The original bounty proviso in IC draft report not viable 377
12.7 Alternative analysis required given my revised views 377

13 Essence of my alternative view

13.1 My vision of TCF in 2010 379
13.2 Philosophy of my TCF policy 382
   13.2.1 Pace of tariff reduction 382
   13.2.2 Process of tariff reduction 384
13.3 Features of my TCF policy recommendation 385
   13.3.1 Importance of certainty 385
   13.3.2 Pause in reduction of tariffs pending international trade liberalisation 386
   13.3.3 Positive assistance 387
      Element 1: Funds for investment to facilitate smooth transition to viable sectors & niches 387
      Element 2: ICS replacement 388
      Positive assistance funded from tariff revenues 389
   13.3.4 Examination of trade liberalisation progress 389
13.3.5 Extension of the OAP 390
13.3.6 Other measures 391
   A Anti-dumping protection 391
   B Dedicated vocational education & training for TCF 392
   C Global intelligence 393
   D Microeconomic reform 394
   E Retrenchment assistance 395
   F Payroll and wholesale sales tax 395
13.3.7 Responsibilities upon TCF industries 396
   A Supply chain linkages 396
   B TQM and WBP 396
   C Industrial relations 396

14 The evidence and arguments underpinning my TCF policy recommendation

14.1 Overstated cost of TCF tariffs 397
   14.1.1 The relevance & accuracy of CTE cost to consumers 397
   14.1.2 Reduction in aggregate consumption 399
   14.1.3 Diminishing marginal benefit of tariff reduction 399
   14.1.4 Observations regarding the Monash model 400
14.2 Understated cost of unilateral tariff reductions 401
   14.2.1 Job losses 401
   14.2.2 Job creation in sectors outside TCF 403
   14.2.3 The importance of sentiment 404
   14.2.4 The importance of domestic markets for the export effort 405
   14.2.5 Hardship 405
14.3 General merit of measured reduction in tariffs and minimisation trauma to industry 407
   14.3.1 The capacity to add value is important for Australia 408
14.3.2 Pause for adjustment will foster stronger businesses post-2000 — the importance of maintaining critical mass 410
14.3.3 Retaining a bargaining position 412
14.3.4 The human element 412

References 421

VOLUME 2: APPENDICES

A Conduct of the Inquiry
B The TCF industries: Definition, structure and performance
C The TCF Workforce
D Homeworking in Australia
E Demand measurement
F The WTO textiles and clothing agreement and its effects
G Australia’s international trading commitments
H Commonwealth funded adjustment assistance schemes
I The history and structure of TCF barrier assistance in Australia
J Concessional entry arrangements
K The effect on household expenditure of reducing TCF tariffs
L The role of general equilibrium models in assessing changes in industry assistance
M The TCF Industries, 1986-87 to 1993-94
N The economy-wide effects of reducing tariffs
O The Monash Model
P Issues in evaluating changes in industry assistance
References
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>ACM</td>
<td>Australian Chamber of Manufactures</td>
</tr>
<tr>
<td>ACS</td>
<td>Australian Customs Service</td>
</tr>
<tr>
<td>AFTEC</td>
<td>Australian Fibre Training and Education Centre</td>
</tr>
<tr>
<td>AHECC</td>
<td>Australian Harmonised Export Commodity Classification</td>
</tr>
<tr>
<td>AIRC</td>
<td>Australian Industrial Relations Commission</td>
</tr>
<tr>
<td>ALMITAB</td>
<td>Australian Light Manufacturing Industry Training Advisory Board</td>
</tr>
<tr>
<td>AMEP</td>
<td>Adult Migrant English Program</td>
</tr>
<tr>
<td>AMES</td>
<td>Adult Migrant English Service</td>
</tr>
<tr>
<td>ANAO</td>
<td>Australian National Audit Office</td>
</tr>
<tr>
<td>ANESBWA</td>
<td>Association of Non-English Speaking Background Women of Australia</td>
</tr>
<tr>
<td>ANTA</td>
<td>Australian National Training Authority</td>
</tr>
<tr>
<td>ANZCERTA</td>
<td>Australia and New Zealand Closer Economic Relations Trade Agreement</td>
</tr>
<tr>
<td>ANZECC</td>
<td>Australia and New Zealand Environment and Conservation Council</td>
</tr>
<tr>
<td>ANZSIC</td>
<td>Australian and New Zealand Standard Industrial Classification</td>
</tr>
<tr>
<td>APEC</td>
<td>Asia–Pacific Economic Co-operation (forum)</td>
</tr>
<tr>
<td>ARA</td>
<td>Australian Retailers’ Association</td>
</tr>
<tr>
<td>ARMCANZ</td>
<td>Agriculture and Resource Management Council of Australia and New Zealand</td>
</tr>
<tr>
<td>ASCM</td>
<td>Agreement on Subsidies and Countervailing Measures</td>
</tr>
<tr>
<td>ASCO</td>
<td>Australian Standard Classification of Occupations</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Standard Industrial Classification</td>
</tr>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
</tr>
<tr>
<td>AWA</td>
<td>Australian Workplace Agreement</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>BIE</td>
<td>Bureau of Industry Economics</td>
</tr>
<tr>
<td>CA</td>
<td>Certified Agreement</td>
</tr>
<tr>
<td>CER</td>
<td>Closer Economic Relations</td>
</tr>
<tr>
<td>CES</td>
<td>Commonwealth Employment Service</td>
</tr>
<tr>
<td>CGE</td>
<td>Computable general equilibrium</td>
</tr>
<tr>
<td>CIF</td>
<td>Cost, insurance and freight</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>CSIRO</td>
<td>Commonwealth Scientific and Industrial Research Organisation</td>
</tr>
<tr>
<td>CTE</td>
<td>Consumer Tax Equivalent</td>
</tr>
<tr>
<td>DEET</td>
<td>Department of Employment, Education and Training</td>
</tr>
<tr>
<td>DEETYA</td>
<td>Department of Employment, Education, Training and Youth Affairs</td>
</tr>
<tr>
<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
</tr>
<tr>
<td>DIMA</td>
<td>Department of Immigration and Multicultural Affairs</td>
</tr>
<tr>
<td>DIST</td>
<td>Department of Industry, Science and Tourism (formerly Department of Industry, Science and Technology)</td>
</tr>
<tr>
<td>DSS</td>
<td>Department of Social Security</td>
</tr>
<tr>
<td>EFA</td>
<td>Enterprise Flexibility Agreement</td>
</tr>
<tr>
<td>EFS</td>
<td>Export Facilitation Scheme</td>
</tr>
<tr>
<td>EPAC</td>
<td>Economic Planning and Advisory Commission</td>
</tr>
<tr>
<td>ERA</td>
<td>effective rate of assistance</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FMAA</td>
<td>Footwear Manufacturers’ Association of Australia</td>
</tr>
<tr>
<td>FOB</td>
<td>free on board</td>
</tr>
<tr>
<td>FSC</td>
<td>Future Strategies Committee</td>
</tr>
<tr>
<td>FTAA</td>
<td>Federated Tanners’ Association of Australia</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>GNE</td>
<td>Gross national expenditure</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>HS</td>
<td>Harmonised Schedule</td>
</tr>
<tr>
<td>IAC</td>
<td>Industries Assistance Commission</td>
</tr>
<tr>
<td>IAP</td>
<td>Individual Action Plan</td>
</tr>
<tr>
<td>IC</td>
<td>Industry Commission</td>
</tr>
<tr>
<td>ICS</td>
<td>Import Credit Scheme</td>
</tr>
<tr>
<td>IDS</td>
<td>Industry Development Strategy</td>
</tr>
<tr>
<td>IGAE</td>
<td>Inter-governmental Agreement on the Environment</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>ISIC</td>
<td>International Standard Industrial Classification</td>
</tr>
<tr>
<td>JIT</td>
<td>just-in-time</td>
</tr>
<tr>
<td>LAP</td>
<td>Labour Adjustment Package</td>
</tr>
<tr>
<td>LDF</td>
<td>landed duty free</td>
</tr>
<tr>
<td>MFA</td>
<td>Multifibre Arrangement</td>
</tr>
<tr>
<td>MIT</td>
<td>Massachusetts Institute of Technology</td>
</tr>
<tr>
<td>MITI</td>
<td>Ministry of International Trade and Industry</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NAIRU</td>
<td>Non-accelerating inflation rate of unemployment</td>
</tr>
<tr>
<td>NEPC</td>
<td>National Environment Protection Council</td>
</tr>
<tr>
<td>NEPM</td>
<td>National Environment Protection Measure</td>
</tr>
<tr>
<td>NESB</td>
<td>non-English speaking background</td>
</tr>
<tr>
<td>NICNAS</td>
<td>National Industrial Chemicals Notification and Assessment Scheme</td>
</tr>
<tr>
<td>NIES</td>
<td>National Industry Extension Service</td>
</tr>
<tr>
<td>NIEs</td>
<td>Newly Industrialising Economies</td>
</tr>
<tr>
<td>NOHSC</td>
<td>National Occupational Health and Safety Commission</td>
</tr>
<tr>
<td>NRA</td>
<td>Nominal Rate of Assistance</td>
</tr>
<tr>
<td>NTB</td>
<td>non-tariff barrier</td>
</tr>
<tr>
<td>NWQS</td>
<td>National Water Quality Management Strategy</td>
</tr>
<tr>
<td>OAP</td>
<td>Overseas Assembly Provisions</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OH&amp;S</td>
<td>occupational health and safety</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>OPT</td>
<td>outward processing trade</td>
</tr>
<tr>
<td>PECC</td>
<td>Pacific Economic Cooperation Council</td>
</tr>
<tr>
<td>PRT</td>
<td>payroll tax</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>research and development</td>
</tr>
<tr>
<td>RCA</td>
<td>Retail Council of Australia</td>
</tr>
<tr>
<td>RPS</td>
<td>Reportable Payments System</td>
</tr>
<tr>
<td>SAA</td>
<td>Standards Association of Australia</td>
</tr>
<tr>
<td>SME</td>
<td>small and medium size enterprises</td>
</tr>
<tr>
<td>SPARTECA</td>
<td>South Pacific Regional Trade and Economic Cooperation Agreement</td>
</tr>
<tr>
<td>STARS</td>
<td>Statistical Analysis and Retrieval System</td>
</tr>
<tr>
<td>TAFE</td>
<td>Technical and Further Education</td>
</tr>
<tr>
<td>TCA</td>
<td>Textiles and Clothing Agreement</td>
</tr>
<tr>
<td>TCFCA</td>
<td>Textiles, Clothing and Footwear Council of Australia</td>
</tr>
<tr>
<td>TCFDA</td>
<td>Textiles, Clothing and Footwear Development Authority</td>
</tr>
<tr>
<td>TCFA</td>
<td>Textiles, Clothing and Footwear Union of Australia</td>
</tr>
<tr>
<td>TCO</td>
<td>Tariff Concession Order</td>
</tr>
<tr>
<td>TCS</td>
<td>Tariff Concession System</td>
</tr>
<tr>
<td>TES</td>
<td>Temporary Employment Subsidy</td>
</tr>
<tr>
<td>TEXCO</td>
<td>Tariff/Tax Export Concession</td>
</tr>
<tr>
<td>TFIA</td>
<td>Council of Textiles and Fashion Industries of Australia</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Committee on Trade and Development</td>
</tr>
<tr>
<td>UNFAO</td>
<td>United Nations Food and Agriculture Organization</td>
</tr>
<tr>
<td>USITC</td>
<td>United States International Trade Commission</td>
</tr>
<tr>
<td>USTR</td>
<td>United States Trade Representative</td>
</tr>
<tr>
<td>VAT</td>
<td>value added tax</td>
</tr>
<tr>
<td>VET</td>
<td>Vocational Education and Training</td>
</tr>
<tr>
<td>WELL</td>
<td>Workplace English Language and Literacy</td>
</tr>
<tr>
<td>WST</td>
<td>wholesale sales tax</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
REPORT OUTLINE

Terms of reference
Commissioner’s views
Overview
Alternative analysis: Mr P. Brass — Overview
Recommendations
  Recommendations of all Commissioners
  Recommendations of Mr Cosgrove and Professor Snape
  Recommendations of Mr Brass
TERMS OF REFERENCE

I, PETER COSTELLO, Treasurer, under Part 2 of the Industry Commission Act 1989, hereby:

1. refer Australia’s textile, clothing and footwear (TCF) industries for inquiry and report within nine months of receiving this reference. The inquiry will include early stage processing of raw materials, top-making and tanning and higher value-added manufacturing, including spinning, knitting, weaving, fabric and leather dying and finishing;

2. specify that, in making its recommendation on assistance arrangements for these industries post 2000, the Commission aims to improve the overall economic performance of the Australian economy;

3. request that the Commission have regard to the Government’s desire to encourage the development of sustainable, prosperous and internationally competitive TCF manufacturing activities in Australia; to improve the overall economic performance of the Australian TCF industries; and to provide good quality, competitively priced TCF products to the Australian consumer; and its commitment to abide by Australia’s international obligations and commitments;

4. request that the review and report have regard to the Legislative Review provisions of the Competition Principles Agreement;

5. specify that: the report include options, including a preferred option, and implementation strategy and the Commission consider how the Australian TCF industries will evolve within a world trading environment through the next decade; and the Commission consider APEC developments on market liberalisation, and the timing and extent of cost reductions from other microeconomic reforms;

6. request that the Commission report on, so far as practicable:

(a) emerging national and international market factors affecting the industries, including their current structure, rationalisation, competitiveness and support mechanisms by other countries, and barriers facing Australian exports, drawing international comparisons where appropriate;
(b) the advantages and disadvantages of Australia as an investment location for all phases of TCF industries, from research and development, training through to manufacturing, marketing, import substitution and export;
(c) the potential for further development of the TCF industries, including the scope for improving productivity and workplace practices;
(d) the impact of the current development arrangements, as well as regulatory and standards arrangements, on the structure, performance and competitiveness of the industries (with specific assessment given to the impact on small and medium-sized firms), and on Australian consumers, resource allocation and growth prospects generally;
(e) any measures which could be undertaken to remove impediments or otherwise contribute to the efficiency and development of the industries, including ways of reducing the regulatory burden on small and medium-sized firms;
(f) the identification of groups who would benefit, or be disadvantaged by, any measures flowing from 5 and 6 (e) above;
(g) the effectiveness of Australian research and educational infrastructure in providing design, engineering, production management and other skill capabilities; and
(h) the impact of its proposals on relative assistance between the textile, clothing and footwear sectors;

7. specify that the Commission take account of any recent substantive studies, and have regard to the economic, social, environmental and regional development objectives of Governments; and

8. note the intention that the Commission’s recommendations will be considered by the Government and its decisions will be announced as soon as possible.
COMMISSIONERS’ VIEWS

During the course of this Inquiry the Commissioners have reached agreed assessments on many aspects of the condition of the TCF industries, the ways in which they need to develop in order to become internationally competitive, and the effects of past and current assistance policies. The Commissioners also agree that assistance arrangements after 2000 should involve a reduction of TCF tariffs to 5 per cent in order to bring TCF into line with the general tariff rate for manufacturing and to prepare for free trade in APEC developed countries by 2010. It is agreed that this tariff policy should be accompanied by transitional adjustment assistance.

There have been some differences in the way Commissioners have interpreted prospects for the TCF industries, analysed the challenges facing them, and assessed the significance of gains and costs associated with reductions in assistance. This has led to some differences in conclusions and recommendations as to how best to address those challenges. The principal differences concern the path of tariff reduction along the way to free trade and the conditions under which it should occur, and the extent of other transitional adjustment assistance. The Commissioners’ views and recommendations are presented below.
OVERVIEW

The TCF environment has changed.

The Australian textiles, clothing and footwear (TCF) manufacturing industries have undergone a substantial transformation over the past decade. Protection has been reduced considerably, against a backdrop of changing consumer spending patterns, continually evolving technology and shifts of TCF manufacturing from developed to developing countries. International trade in TCF, long distorted by quotas and high tariff barriers in many countries, is being liberalised progressively under the aegis of the World Trade Organization (WTO) Agreement on Textiles and Clothing. The Australian Government is also committed to the Asia–Pacific Economic Co-operation Forum (APEC) agreement for free trade and investment in 2010 for developed member countries, and 2020 for APEC as a whole.

Response to change

Creative adaptation is occurring ...

The industries’ responses to these changes have been many and varied. In aggregate, TCF manufacturing output and employment have declined. The local industries have lost domestic market share to imports, particularly from developing countries with low labour costs. Exports have risen strongly. Some sections of TCF manufacturing have expanded and many have become much more outwardly focused than in the past. Individual companies have pursued a range of strategies to cope with their increased exposure to international competition, including:

- improved use of technology and labour-saving equipment;
- greater emphasis on product quality and customer service (including quick response supply);
- reorientation of production and marketing towards niche markets or internationally competitive products;
- rationalised production facilities to reap economies of
scale and scope — in many cases obtaining part of their product range from abroad while concentrating on their particular advantages;

- formation of alliances up and down the production chain;
- improved staff skill levels; and
- splintering of some operations to independent contractors and use of homeworkers to reduce costs.

Not all firms have met the challenges presented by reduced protection, and many have changed hands or ceased operation. The performance of TCF firms is highly disparate — some firms have made great strides towards becoming internationally competitive; others still have a substantial way to go. New companies are continuing to emerge.

As a result of these adjustments, the TCF industries of today are much more efficient than they were in the past. Participants themselves have noted how falling protection has forced managers to lift their game:

> I commenced as Mill Manager in 1989 after being involved in Metals manufacturing for over 25 years. My observations were that the industry was fat and lazy, and my peers felt the industry owed them a job. In fact, I supported the first round of tariff reductions, it forced TCF manufacturers to smarten up, those that could not have closed. (Classweave Industries, sub. 166, p. 1)

A decade ago, many people thought that the TCF industries would not survive substantial reductions in protection; in fact, the industries have proven to be much more resilient. At the same time, the burden of protection borne by the rest of the community — consumers, user industries and exporters — has been reduced substantially.

Today, the TCF industries are arguing again that continued protection is vital for their survival. The industries have asked that tariffs be maintained at their 2000 levels until 2005, at which time the Government should proceed with further tariff reform only if other countries are doing the same, and provided further microeconomic reforms have been implemented. They requested additional budgetary...
assistance which would increase their effective rate of assistance from the levels that will prevail in 2000 — at least until 2005.

**TCF assistance and jobs**

One of the main arguments advanced by the industries, both in the past and in the present Inquiry, is that tariffs and other forms of assistance are needed to protect jobs. Employment in TCF industries has been declining for decades. Even the doubling of assistance between the early 1970s and the mid-1980s did not prevent employment from continuing to decline. At the same time, TCF protection raised costs to consumers and cost structures of other industries. It therefore reduced jobs elsewhere in the economy.

Australian TCF employment has fallen for a number of reasons unrelated to reductions in assistance to

![Graph: Clothing and footwear assistance and employment indices, 1968-69 to 1996-97](image)

*Source:* IC 1995c and ABS 1997f
manufacturing:

- technological change has favoured the use of capital over labour, especially in the textiles sector;
- consumers have shown a preference for imported products within the smaller proportion of their incomes which they are spending on TCF products; and
- substantial wage differentials between Australia and developing countries mean that even very high (and costly) levels of assistance cannot eliminate this differential for standardised labour-intensive products.

All of these forces will continue to lead to TCF employment losses regardless of what happens to TCF tariffs.

Australia’s experience that TCF — and other — employment is not closely related to protection is consistent with the experience of the rest of the developed world. Despite an array of import quotas, voluntary restraint agreements and tariffs, TCF manufacturing employment in other OECD countries has fallen... but assistance has not prevented past job loss here... or abroad.

Formal TCF manufacturing employment, 1980 to 1992

<table>
<thead>
<tr>
<th>Country</th>
<th>1980</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ILO 1996a
considerably since 1980.

Tariff protection cannot be expected to increase or even maintain the total level of employment in the economy. Evidence — contrary to popular perception — from Australia and other countries is that it does not do so. TCF tariff reductions may lower employment in TCF manufacturing, though other influences on the level of employment (described above) are much more important. But TCF tariff reductions, by reducing costs for consumers and other industries will increase employment elsewhere in the economy. This will occur in part by the employment of some people who otherwise would be unemployed, and in part by re-employment of some displaced TCF workers.

TCF trade liberalisation

It has been argued that corruption of world TCF trade by trade barriers abroad is so extensive that Australia’s industries cannot and indeed should not be expected to compete on fair and open terms. However, this understates the significant progress that has been achieved in global TCF trade liberalisation in recent years. The APEC commitment to free trade and investment is a significant development. Further, the WTO Agreement on Textiles and Clothing (ATC) requires that all quantitative restrictions on textiles and clothing trade between members of the WTO are to cease by 1 January 2005. There is no evidence that developed countries — in particular the US, Canada and the EU — are not implementing the ATC and, contrary to the view expressed frequently by some participants, these countries have not been increasing TCF trade barriers in recent years. Developing countries are continuing to reduce their TCF and other trade barriers unilaterally.

In Australia, although protection has been reduced considerably, TCF manufacturing remains, on average, the most highly assisted manufacturing activity. This position of advantage will continue in the next few years. Assistance escalates through the production chain. By
2000, tariffs will range from zero for fibres to 15 per cent for footwear and textiles and 25 per cent for clothing and bed sheets, compared with the maximum 5 per cent for other manufacturing (excluding passenger motor vehicles).

| Selected tariff phasing arrangements: 1990 to 2000 (per cent) |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Apparel and certain finished textiles | 55%  | 51%  | 43%  | 37%  | 31%  | 25%  |
| Footwear                    | 45%  | 41%  | 33%  | 27%  | 21%  | 15%  |
| Woven fabrics               | 40%  | 37%  | 31%  | 25%  | 19%  | 15%  |
| Sleeping bags, table linen  | 25%  | 23%  | 19%  | 15%  | 12%  | 10%  |
| Passenger motor vehicles    | 40%  | 35%  | 30%  | 25%  | 20%  | 15%  |
| General manufacturing       | 15%  | 10–5 | 10%  | 5%   | 5%   | 5%   |

Notes: Tariff reductions occur on 1 July each year from 1992.
Source: IC 1995

This Inquiry is about the post-2000 policy environment

This report

In the terms of reference for this inquiry, the Government specified that the Commission’s recommendations should aim to improve Australia’s overall economic performance. The Government also expressed its desire to:

- encourage the development of sustainable, prosperous and internationally competitive TCF manufacturing activities in Australia — and to improve the overall economic performance of the Australian TCF industries;
- provide good quality, competitively priced TCF products to Australian consumers; and
- abide by Australia’s international obligations and commitments.

The Commission recognises that there are no easy ways to satisfy the first of these desires. In particular, it recognises that tariffs and subsidies do not encourage improvement. Instead, the Commission’s recommendations seek to improve the performance of the industries by addressing
important issues such as industry training, research and development (R&D) and industry information flows, within a context of gradual exposure to further international competition. These recommendations are not ‘quick fixes’. However, they are likely to result in industries which make better use of the nation’s resources and which are better prepared for the low protection environment to which Australia is committed by the year 2010.

The Commission’s recommendations have been framed with this goal in mind, while recognising that the industries may not maintain their present structure or size. The Commission proposes a further adjustment program for the next decade to complete the process begun ten years ago. After a twenty year adjustment process, Australia’s TCF industries should be free to take advantage of market forces without government trade distortions and the destabilising effects of frequent changes in government policies.

**Global trends**

Textiles, clothing and footwear are mature products. In developed countries, including Australia, not only is demand increasing very slowly, but TCF’s share in household budgets is actually falling as a consequence of a shift in preferences combined with rising incomes and falling relative prices.

However, opportunities to import and export are expanding. TCF industries have been an engine of growth in many developing countries, particularly in our region. The labour-intensive parts of these industries, particularly clothing and footwear, continue to migrate to low labour cost countries, most importantly to China.

The story of the TCF industries today is one of dynamic transformation and change, at home and across the globe. Powerful economic forces are at work. This creates a challenging commercial environment for Australia’s TCF industries, but also significant opportunity.
Australia’s TCF industries today

TCF manufacturing is broad and diverse. It covers such varied activities as wool scouring and top making, leather tanning, spinning, weaving, knitting, and the design and fabrication of clothing, leather and shoes, and textiles such as towels, blankets, sheets and curtains. Much of the output of the industries is used as inputs within the sector, although textiles are significant inputs to a number of other industries, such as furniture, motor vehicles, hospitality and health services.

Competition among retailers for the consumer dollar has intensified. With the end of TCF quotas which had constrained choice and protected margins, retailers have had to find new ways of doing business.

Overall, output and employment in Australia’s TCF manufacturing industries have declined. The bulk of the decline has occurred in the labour-intensive footwear and clothing sectors. TCF exports have grown rapidly in real terms, from a low base. A number of companies have moved some of their operations offshore and are now importing a substantial proportion of their range. In a stagnant domestic market, the share of imports has increased considerably.

Some parts of TCF manufacturing have grown over the past decade — in particular, leather and certain fibres, yarns and fabrics — while others have declined. Textile products (such as towels and sheets) gained market share at the expense of imports. Even in parts of the industries which are declining, some companies have grown quickly.

Jobs

With about 100,000 recorded jobs, TCF manufacturing comprises only about 1 per cent of total Australian employment and 9 per cent of manufacturing employment. Jobs in TCF wholesaling and retailing exceed jobs in manufacturing. Most TCF jobs are not in the regional areas but in capital cities — three quarters of TCF manufacturing employment is in capital cities, particularly
Melbourne and Sydney. More than one third of employees, or 38 500 people, work in Melbourne alone.

While metropolitan employment declined by close to 16 000 formal jobs between May 1985 and May 1997, 2500 additional TCF manufacturing jobs were created in regional areas. The growth was not distributed evenly. Some non-metropolitan regions experienced growth and others significant declines in employment. For example, Victorian regional TCF manufacturing employment declined by 33 per cent. By contrast, regional employment in NSW increased by 39 per cent and in Queensland by 123 per cent.

Many migrants found their first Australian job in TCF industries. While there are highly skilled jobs in the industries, such as chemical engineering or textile technology, many jobs involve simple tasks which can be performed with limited training or knowledge of English. Reflecting Australia’s general migration patterns, most TCF workers from non-English speaking backgrounds are from Southern Europe or North and South-East Asia. The
workforce is ageing. Participants said that, on the whole, young people are reluctant to make a career in TCF industries.

**Jobs down in TCF manufacturing, but up in TCF distribution**

Most of the measured fall in TCF manufacturing employment since the mid-1980s occurred during the recession of the early 1990s. Recent statistics indicate a more moderate rate of decline since then. Increased employment in TCF wholesaling and retailing offset about half of the jobs lost in TCF manufacturing.

**Homeworkers**

About half the jobs lost in TCF manufacturing between 1985 and 1997 were in the clothing industry. However, many in the industry say that this is partly an illusion as people moved out of factories and into their homes to work homeworking in clothing equal to 23,000 full-time jobs.
(but then were not counted in the official employment statistics). The Commission estimates that homeworking in the clothing industry currently amounts to the equivalent of about 23 000 full-time jobs. A smaller number of homeworkers is involved in producing other TCF goods, such as bed linen. Given the sporadic and seasonal nature of much homeworking, it is likely that the actual number of homeworkers is much greater.

Homework provides a more flexible labour force, and convenient employment for some. However, there are also genuine concerns about working conditions. The TFIA and the TCFUA have cooperated to develop a code of practice for homeworkers, although its implementation has been limited to date.

**Labour market flexibility**

Industries insulated from strong external competition for lengthy periods tend to have weaknesses in management and workplace practices. The changes in the competitive environment faced by the TCF industries over the last decade have highlighted the need for improved management and more productive workplace arrangements.

With the passage of the *Workplace Relations and Other Legislation Amendment Act 1996*, the award framework for the industries is about to change. Due in part to the large number of small firms, enterprise agreements are relatively rare in these industries. They appear to be more common in larger capital-intensive sections where achieving more flexible working hours has been an important driver of change.

Most companies in the sector use the awards. The federal TCF awards contain clauses which have the potential to constrain labour productivity substantially and, it would seem, unnecessarily. These clauses should be examined in the forthcoming review of awards under the *Workplace Relations Act 1996* with a view to their removal.
Training

Training and skill gaps also have been identified as impediments to growth and development of Australia’s TCF industries, as they have for the economy generally. Partly as a result of high assistance, in the past the industries (with several notable exceptions) have not been particularly interested in training. This is changing as industry faces the need to become technically more advanced and more highly skilled. But there is much catching up to do.

With reduced assistance, the TCF industries have become more technologically sophisticated, capital-intensive and focussed on improved quality, production, distribution and management systems, and more concerned about inadequacies in training. There are serious problems in the current training arrangements and institutions. The result is a lack of strategic direction for TCF training as well as poor facilities and delivery. Action is needed by governments and industry to improve training. The Commission sees a case for the introduction of scholarships to enable training overseas so that Australians can learn more from the world’s centres of excellence in TCF technology and training.

Current assistance framework

The complex and often contradictory structure of policies which dominated activity in Australia’s TCF industries by the mid-1980s masked price signals necessary for firms to operate efficiently. Since the Button Plan began in the late 1980s, Australia’s TCF assistance has been reduced and simplified substantially although the TCF manufacturing industries still face an array of incentive-distorting, and sometimes conflicting, policy instruments.

Assistance varies considerably among TCF industries. Early stage activities such as wool scouring and top making, spinning and leather tanning are lightly assisted and on a par with the rest of Australia’s manufacturing industries (although some have received significant
assistance through the Import Credit Scheme and capital grant schemes). Production of clothing and some finished textiles (such as bed sheets) receives much more assistance than any other industry in Australia, including passenger motor vehicles.

In 1996-97, the average rate of effective assistance for clothing and footwear was 8 times that afforded to manufacturing as a whole. That for textiles was 4 times the manufacturing average. In 2000, average effective rates — even without the Import Credit Scheme — will be 33 per cent for clothing, 24 per cent for footwear and 17 per cent for textiles. Within these groups there still will be significant variation — some knitwear still will have an effective rate of 49 per cent. The average effective rate of assistance for manufacturing industries other than the TCF industries will be 4 per cent in 2000.

The tariff structure and by-laws

The TCF tariff regime is replete with anomalies. Interacting with the tariff are policy by-laws which have less apparent, arbitrary effects. The availability of duty-free imports under by-law benefits some areas of textile and clothing manufacture and disadvantages others. The Commission considers it likely that the by-laws have led to uneven development in the woven textile industry, especially the limited use of wool fabrics in the Australian

<table>
<thead>
<tr>
<th>Item</th>
<th>Duty (%)</th>
<th>Related product</th>
<th>Duty (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather sandals</td>
<td>24</td>
<td>leather sandals with a strap over the big toe</td>
<td>0</td>
</tr>
<tr>
<td>Bed linen</td>
<td>34</td>
<td>table linen</td>
<td>13</td>
</tr>
<tr>
<td>Hand towels</td>
<td>21</td>
<td>tea towels</td>
<td>0</td>
</tr>
<tr>
<td>Curtains and drapes</td>
<td>34</td>
<td>blinds</td>
<td>13</td>
</tr>
<tr>
<td>Cotton tablecloths</td>
<td>13</td>
<td>hand-embroidered cotton tablecloths</td>
<td>0</td>
</tr>
</tbody>
</table>
clothing industry.

Effects

Tariffs are a selective form of assistance. In general, they support production and employment in protected industries at the expense of output and employment in other less assisted industries, resulting in a less productive economy. This translates to lower living standards for the Australian community as a whole.

For the TCF sector, the tariff regime has meant that the activities least able to compete internationally have attracted the greatest assistance. Domestic production in the finished goods end of the market has been encouraged while resource allocation and consumption patterns for intermediate and final goods have been distorted. Adjustment to changing global circumstances has been discouraged.

The deleterious effects of protection to TCF are not quarantined to activities in that sector. They spill over into other areas of the economy. TCF tariffs directly harm user industries by inflating their business costs and reducing their competitiveness.

A tariff is a tax. It is paid in the form of higher prices by consumers and users — to the government in the form of tariff revenue on imports, or to local TCF firms through the higher prices which they can charge for locally made products which compete with imports. The Commission estimates that for the year 2000, tariffs will raise the price of TCF goods by around $1 billion. This figure is known as the ‘consumer tax equivalent’, and is different from the efficiency costs associated with tariffs, since it includes transfers of income from consumers and users to the TCF industries and to government.

Budgetary assistance

Border assistance measures such as tariffs are only part of the story of selective assistance to the TCF sector. These industries have received substantial budgetary assistance in
many forms from all levels of government.

Between 1987 and 2000, in addition to the cost to consumers of the tariff (that is, the cost arising from the tax on imports), Government expenditures (including forgone import duties) via Commonwealth TCF-specific programs will have amounted to more than $1 billion. Programs include grants for modernisation and restructuring, bounty capitalisation, and funding for development of sectors disadvantaged by border assistance (such as wool processing and other raw materials).

Many of these measures were developed to neutralise the adverse effects of tariffs but have in turn created their own anomalies. For example, the Import Credit Scheme is intended to encourage TCF manufacturers to concentrate on areas of comparative advantage and to move out of areas of relative disadvantage — in effect, it attempts to undo the negative consequences of many decades of border protection.

Although the Scheme has awakened many firms to overseas markets and led to increased exports, a significant proportion of exports remains dependent on the program. It also has led to reduced supplies, and increased input

<table>
<thead>
<tr>
<th>Commonwealth budgetary assistance, 1987 to 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Industries Development Strategy</td>
</tr>
<tr>
<td>TCF 2000 Development Strategy</td>
</tr>
<tr>
<td>Import Credit Scheme</td>
</tr>
<tr>
<td>Overseas Assembly Provisions Scheme</td>
</tr>
<tr>
<td>Bounties</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

*Source:* TCFDA (1995); DIST TCF Branch, unpublished information

Assistance has unintended effects
prices, for some TCF firms and for industries using TCF products. The recent Howe Leather case has highlighted the vulnerability of this Scheme to challenge under WTO rules, posing problems for Australia in its international trading relations. The Scheme is scheduled to cease in 2000.

**A tariff pause?**

Most industry participants recognised Australia’s APEC commitment to free trade and investment by 2010. This centred the debate on the path that assistance reductions should take in order to meet this goal. The TFIA stated:

> Australia’s TCF industries acknowledge the Government’s commitment to the APEC free trade environment. The industries accept the move to a true free trade regime within the region, provided it is equally adopted by our major trading partners. In the lead up to freer regional and perhaps world trade, local companies recognise the need to position themselves to capture all the opportunities likely to arise from the dismantling of the currently extensive international barriers to trade and investment flows in TCF and supporting industries.

(sub. 66, p. 5)

Many industry and other participants submitted that there should be a pause in tariff reductions between 2000 and 2005 to give the industries affected a breathing space and to review the progress of trade liberalisation by other countries. However, a tariff pause would not solve the industries’ long-term difficulties. All over the developed world, TCF industries are having to restructure, regardless of tariff or quota barriers. Production cost differences between Australia and the developing world are likely to continue to lead domestic production away from those areas in which it cannot compete, and towards areas more suited to Australia’s strengths.

Such a pause also could create significant uncertainty in the TCF industries and industries using TCF products. This would be so particularly if the duration and nature of the pause were to be conditional on actions over which the Australian Government has little or no control, such as...
A halt to assistance reform would be counterproductive. It would prolong the costs of high assistance and delay the adjustments which are both necessary and beneficial to the longer-term interests of the industries and the whole community. Competitive Australian industries would have to wait longer to gain from reductions in TCF tariffs. It also would put at risk the gains made so far, and would make the necessary adjustment after 2005 more painful. A five year pause would require large annual reductions in tariff levels after 2005 if Australia is to meet its APEC commitment by 2010. Five years of uncertainty as to whether or not tariffs would be lowered after this time would be likely to leave the industry ill-prepared for such sharp reductions.

A pause might be interpreted as an indefinite halt to the reform process. Neither the community’s nor the TCF industries’ long-term interests would be advanced by this. Indeed, a pause would send a bad policy signal to our trading partners. If Australia is seen to be excluding TCF from progressive liberalisation under APEC, recent experience in trade negotiations would suggest that other countries may be tempted to exclude agriculture. Other Australian industries could seek exclusion too.

**Reciprocity in tariff setting**

The TFIA and other industry participants argued that further tariff reductions should be conditional on progress achieved in trade liberalisation in other countries, particularly the US and EU and our major trading partners in Asia. Many participants stated that trade barriers in most other countries were higher than in Australia.

While both the US and EU (unlike Australia since 1993) have quotas on imports from developing countries, Australian exports are not subject to quotas and so enjoy privileged access to these markets. The TCF tariff barriers imposed by Australia’s major trading partners are, more often than not, lower than those in Australia.
It was contended also that high barriers to exports from developing countries in developed countries, particularly the US and EU, make Australia the target for imports from developing countries, mainly China. Specifically, it was stated that China has achieved substantially greater import penetration in Australia than in other major importing countries. This often repeated and publicised claim, when checked, could not be substantiated. Indeed, China was found to have achieved a much higher level of per capita import penetration for TCF in Japan than Australia, and the corresponding figures for the US were also much higher than claimed.

Australia’s major exports of primary and intermediate TCF goods to Asia are more constrained by trade barriers imposed by third parties, such as quotas on woollen garments exported from Hong Kong to the US. That is why Australia has much to gain from multilateral action to liberalise trade in TCF as well as in other products such as agriculture.

Nonetheless, the majority of the gains from trade stem from unilateral tariff reductions. A ‘reciprocity’ approach to tariff policy would delay these gains. The National Farmers’ Federation and the Wool Council have called for continuation of unilateral reductions in protection because of the benefits which will accrue to the whole economy, and particularly to export industries.

There are also major practical difficulties associated with the reciprocity approach. Australia is unlikely to achieve bilateral reciprocal reductions in trade barriers on TCF products. It is more likely that access for Australia’s traditional exports could be traded against liberalised access for other countries’ TCF exports to us.

Microeconomic reform

Some participants argued that tariff reform should be halted until further progress had been made on microeconomic reform.

The Commission considers that although considerable progress in several areas of microeconomic reform has
been made over the past decade, there is still substantial
room for improvement. Participants rightly identified tax
reform as a major issue to be resolved, as well as further
progress in areas such as ports, energy and transport. By
lowering business input costs and reducing costly delays,
progress in several areas of microeconomic reform will
make an important contribution towards long-run
sustainability of competitive TCF industries.

However, the Commission does not agree that further tariff
reductions should be dependent on further progress in
microeconomic reform. Tariff reform has been a major
driver of microeconomic reform in Australia. Moreover,
from the point of view of consumers and users of TCF
products and other exporters, tariff reform is itself an
important component of the microeconomic reform agenda.

Not all TCF firms will be advantaged necessarily by
taxation reform, depending on the form it takes. Many
participants argued for the removal of payroll tax and
introduction of a goods and services tax (GST). It is not
clear that TCF industries would be advantaged by the
replacement of payroll tax by another broad-based tax,
particularly as a large proportion of companies are so small
that they are currently exempt from payroll tax.
Furthermore, as most of TCF is exempt from wholesale
sales tax, it is quite possible that a broad-based GST, while
more beneficial to the economy generally than Australia’s
current mix of taxes, could affect parts of TCF adversely,
as compared with the current situation.

Nonetheless, the Commission strongly endorses the call for
further microeconomic reforms which will have beneficial
general effects, including for the TCF industries.

**Unacceptable adjustment costs**

Some participants have argued that there should be a pause
in the tariff reform process because the costs of adjustment
in TCF industries are unacceptably high. A pause would
not prevent the continuation of significant job losses which
would stem from influences other than tariff reductions.
Moreover, a pause in tariff reduction until 2005 would
entail precipitate cuts in tariffs, particularly on clothing, to meet APEC commitments. Gradual rather than precipitate tariff reductions are an effective means of facilitating the process of industry adjustment.

The future for TCF

The future viability and prosperity of Australia’s TCF industries lie in higher productivity and enhanced international competitiveness. Significant parts of the sector, such as wool tops, synthetic fibres, yarns and leather already receive little or no tariff protection.

Few in the industries argued that, in the long term, special protection for TCF should remain above the general level for manufacturing. The main points at issue are the path of implementation and adjustment assistance.

The Commission recommends that the long-term rate of tariffs for those TCF products which are not already 5 per cent or less, be reduced steadily to 5 per cent by 2008.

In developing its recommendations, the Commission has considered:

- the economy-wide benefits of tariff reform;
- adjustment costs;
- the need for greater policy certainty for the TCF industries;
- Australia’s commitment under APEC to free trade by 2010; and
- providing the greatest opportunities for growth in the activities where TCF industries are most competitive internationally.

The Government has no control over the uncertainties brought about by powerful world market forces. However, it is able to minimise any uncertainties by providing a stable domestic policy environment in which firms can plan and implement their production, investment, training and staffing decisions. Committing the recommended assistance program to legislation and inscribing it in

Tariffs should fall to 5 per cent by 2008

Policy certainty is needed
Australia’s APEC Individual Action Plan would increase confidence in the policy framework.

The policy adopted by the Government for these industries must be simple to understand, set in stone for the duration of the program, and be the last sectoral program to apply to these industries. Assistance policy should be legislated and inscribed in Australia’s APEC Individual Action Plan.

**Tariff reduction proposals**

The Commission has considered three options for reductions in barrier assistance after 30 June 2001:

1) a steady reduction in all TCF tariffs to 5 per cent by 1 July 2008. Policy by-laws would be abolished at that time;

2) a steady reduction in tariffs on finished goods (such as clothing and footwear) to 5 per cent by 1 July 2008, and a reduction of tariffs to zero on all intermediate inputs with removal of policy by-laws from 1 July 2001, with a compensatory production bounty applied to all TCF intermediate inputs from that date; and

3) a ‘tops down’ option, with tariffs at 25 per cent phasing steadily to 15 per cent by 2004, other tariffs being held at their 2000 levels, after which all tariffs would be reduced in steps to 5 per cent on 1 July 2008. Policy-laws would be abolished on 1 July 2008.

**Option 1**

Option 1, summarised below, has the advantages of simplicity, gradual reductions in assistance, and results in uniform TCF tariffs by July 2008. However, the anomalies inherent in the by-law system would remain until its abolition in July 2008.
Option 1: Tariff rates (per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
</tr>
<tr>
<td>Clothing and other finished textiles</td>
<td>25</td>
<td>22</td>
<td>19</td>
<td>16</td>
<td>13</td>
<td>11</td>
<td>9</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Cotton sheeting and fabrics</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Carpet</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear parts</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other (eg yarns)</td>
<td></td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Option 2

Early by-law removal

Option 2 has been developed as a means of addressing some of the anomalies in assistance inherent in the existing tariff and by-law system. To the extent that the by-law system has encouraged the use of certain types of imported fabrics at the expense of others, domestic production of the former products may have been discouraged. This option would remove that bias. The bounties on yarns and fabrics would not carry the option of capitalisation.

Option 2: Tariff rates (per cent) and bounty on yarns and fabrics (rates and estimated cost)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
</tr>
<tr>
<td>Clothing and other finished textiles</td>
<td>25</td>
<td>22</td>
<td>19</td>
<td>16</td>
<td>13</td>
<td>11</td>
<td>9</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Cotton sheeting and fabrics</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Carpet</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear parts</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other (eg yarns)</td>
<td></td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

| Bounty on yarns and fabrics (%VA)             | na   | 10   | 9    | 8    | 7    | 6    | 5    | 4    | 2    |
| estimated cost ($m)                           | na   | 68   | 61   | 54   | 48   | 41   | 34   | 27   | 14   |

Notes: Assumes no change in output over life of bounty.
Source: Commission estimates

A variant of Option 2 would be to remove the policy by-laws without providing the compensatory bounty. Such an approach could involve significant adjustment costs for the intermediate sector which may outweigh any efficiency gain from removing the by-laws.
**Option 3**

In 2000, while tariffs on textiles and footwear will have fallen to 15 per cent, the tariff on clothing and certain textile products at 25 per cent will still be imposing high costs on consumers and creating significant distortions in resource allocation. Effective rates of assistance for clothing will still be seven times the manufacturing average. Option 3 tackles these high costs first. As shown below, tariffs on clothing and other finished textile products would phase down to the textiles and footwear rate of 15 per cent on 1 July 2004. During this period, tariffs on all the other products would be maintained at their 2000-01 levels. From 1 July, 2005, all would then be phased down to 5 per cent by 2008. This option would provide a breathing space for the textile and footwear sectors. It would be clearly preferable to the industry’s proposal for a conditional pause in all tariff reductions between 2000 and 2005.

**Option 3: Tariff rates (per cent)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
</tr>
<tr>
<td>Clothing and other finished textiles</td>
<td>25</td>
<td>23</td>
<td>20</td>
<td>17.5</td>
<td>15</td>
<td>12.5</td>
<td>10</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Cotton sheeting and fabrics</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>12.5</td>
<td>10</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Carpet</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>12.5</td>
<td>10</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Footwear</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>12.5</td>
<td>10</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Footwear parts</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other (eg yarns)</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

**Preferred option**

All of these options are consistent with Australia’s trade liberalisation commitments under APEC. The Commission does not favour the adoption of Option 3 as the possible gains from the pause for some manufacturers do not appear to exceed the costs. By backloading the benefits of tariff reductions, it would impose higher costs for user industries and consumers than Options 1 or 2. The costs would be significantly greater if the duration of the pause
were to be conditional on Australian and other governments’ actions.

The Commission favours Option 1 over Option 2, primarily because it avoids undesirable temporary increases in the effective rate of assistance to certain clothing and textile producers. Furthermore, the resource allocative gains from removing the distortions attributable to the by-law system are uncertain and may not be large enough to warrant the changes proposed, particularly given the costs associated with the bounty.

Modelling by the Centre of Policy Studies for the Commission indicates that there would be gains for the rest of the economy from the recommended reduction in assistance. The annual net real consumption gain to the community is estimated conservatively at around $110 million in the long run.

The modelling showed that substantial reductions in TCF employment were likely to occur after 2000 even if tariffs were maintained at their 2000 levels. This implies that even if the industries’ proposal for a tariff pause were to be adopted, substantial TCF employment reductions would still occur. CoPS estimated the likely size of the employment losses, even if year 2000 tariff levels are maintained after 2000 at between 17 000 and 27 000 over the period from 1997-98 to 2013-14, depending on the growth of TCF exports. This is equivalent to an average annual loss of TCF manufacturing jobs of between 1100 and 1700.

While the long-run real gain in consumption is an enduring benefit, the TCF employment losses are transitional. Additional employment losses attributable to Option 1 over this period are estimated by CoPS at around 6000 jobs, or about 400 per year. (Adjustment assistance is discussed below.) Industry and trade union claims that 100 000 TCF jobs would be at risk as a result of further tariff reductions after 2000 are greatly exaggerated. Additional job opportunities (offsetting a modest annual reduction in TCF manufacturing employment) are estimated to arise in other areas of the economy as a result of the tariff reductions.
TCF industry output is estimated by CoPS to be below what it would be if tariffs were maintained beyond 2000, by approximately 7 per cent.

**Overseas Assembly Provisions**

The Commission has concluded that the TCF Overseas Assembly Provisions (OAP) Scheme is useful and economically sensible in not levying duty on the Australian content of goods, but only on the value added abroad. The current program is discretionary in relation to eligibility and selective in its application. It should be improved.

*The OAP Scheme should be broadened to include a wider range of processes such as knitting and weaving of Australian yarns, and conversion of leather as well as textiles into products. Post-assembly processing such as labelling and stonewashing should be allowed. Administration should be simplified.*

**Other assistance proposals**

The Commission considers that the Import Credit Scheme and the TCF 2000 Development Strategy, both of which are scheduled to cease in 2000, should not be extended.

**Adjustment**

Reductions in TCF tariffs below levels applying in 2000 would lead to growth in the economy as a whole, and to weaker output and employment in TCF manufacturing industries. An implementation strategy which has regard to adjustment costs is required.

Perhaps the most important factor influencing the adjustment process will be the general state of the economy. Without economic growth — which is facilitated by broad microeconomic reform — new employment opportunities will be limited and adjustment programs directed at assisting workers to move from one area of employment to another will not be effective in increasing total employment. Paradoxically, skill shortages
and other supply bottlenecks may impede growth in areas in which Australia might otherwise appear to hold a comparative advantage.

**Adjustment assistance for employees**

Adjustment assistance for TCF employees is an important issue because employment in TCF manufacturing can be expected to decline regardless of tariff cuts, pauses or, indeed, increases. Attrition through retirements and job transfers will account for some of this reduction in employment. In other cases, people will be retrenched. Some will find work easily, others will not.

While not all of these displaced workers would face difficulty in finding new employment, many of them would — particularly those who are older, low-skilled, with limited English language and literacy skills.

There would be significant costs for the individuals concerned, their families, and ultimately the community, involving a waste of people’s potential. Government assistance for labour adjustment is justified, not only for efficiency reasons but, perhaps more importantly, on equity grounds.

Improving English proficiency is a key to job opportunities for many TCF workers. While English language training is offered to new migrants, the current program requires that it be commenced quite early in the migrant’s time in Australia. This condition appears to be limiting its usefulness to people who work in TCF industries, particularly women who have family as well as work responsibilities, which restrict their time for study.

Existing Commonwealth programs can help to improve the re-employment prospects of displaced TCF workers, particularly those judged to be ‘at high risk of long-term unemployment’. However, the Commission is concerned that under proposed eligibility criteria for general employment services from May 1998, many displaced TCF and other workers who become unemployed will not be eligible or will face delays in gaining access to assistance.
The funding provided to these general employment programs may not be adequate currently to meet the needs of additional displaced TCF workers.

The Commission recommends changes to eligibility guidelines for employment assistance services and additional funding for these activities. These changes should be adopted regardless of the form of future TCF assistance policies.

**Regional adjustment issues**

Although TCF industries are located overwhelmingly in metropolitan areas, there are some smaller country centres where TCF firms are significant employers. In these towns, even small declines in TCF employment have the potential to depress the local economy, at least temporarily, and to strain local employment assistance services.

The more diverse the local economy and the more mobile the work force, both occupationally and geographically, the lower this risk will be. It is therefore important to remove impediments to development and mobility. Greater labour market flexibility is important in this context.

High stamp duties and other costs of house purchases act as a disincentive for people to move from one place to another. The Commission considers that the potential to break down some of the barriers to geographical mobility should be explored.

A number of programs, including the Assistance to Depressed Regions Program, are designed to assist people in regional areas in times of need. Funding increases may be necessary to ensure that such services are not overloaded by displaced TCF workers requiring intensive assistance. Funding decisions should take into account any significant regional impact of TCF activity reductions.

**Adjustment assistance for companies**

Many industry participants argued that the next phase of adjustment will involve large and discrete changes as
companies and industries rationalise and restructure. Several participants, including the TFIA, argued for government assistance to help ease the adjustment burden for TCF firms. As TCF industries have received higher protection than all other manufacturing industries in Australia, the adjustment pressures from their transition to a low protection environment are commensurately greater. On the other hand, assistance applied selectively to one sector of the community means that that sector will be favoured over other parts of the community which also may be going through difficult circumstances beyond their control.

Adjustment assistance which addresses situations in which market mechanisms fail to produce efficient outcomes may be warranted on economic grounds. Usually, however, it is provided for distributional reasons. As such, it is essentially a transfer of income from taxpayers to companies. Provision of assistance to those adversely affected by change also can engender community support for tariff reform.

However, by 2000, TCF firms already will have received well over $1 billion in direct budgetary support to help them adjust to lower tariffs. There is a danger that further adjustment assistance for TCF firms would negate the effects of the tariff reductions, and fail to reduce firms’ dependence on government support overall. Any adjustment assistance should aim to facilitate adjustment, rather than obstruct it.

The Commission does not recommend adjustment assistance for firms. However, if the Government wished to provide additional adjustment assistance, several principles should be observed in order to achieve the greatest benefit and minimise the costs to the community. Assistance should be:

- facilitating of adjustment, not preventing or obstructing it;
- as non-distortionary as possible;
- equitable with respect to firms within the industry and
firms in similar circumstances in other industries;

- simple and predictable for claimants involving minimal bureaucratic discretion;
- targeted at those who need and can benefit from the assistance;
- transparent;
- limited both in time and expenditure; and
- simple to administer.

Bounties and other adjustment assistance

The Commission has considered a number of proposals for adjustment assistance for companies. It has concluded that none of them satisfies all of the criteria outlined above, especially with regard to equity and targeting.

Manufacturers’ concession

The TFIA and a number of others proposed a more general assistance arrangement which they called a ‘manufacturers’ concession’. Some participants argued that such a concession should be implemented to replace the ICS, which terminates in 2000, while others argued that it should be adopted in addition to a replacement for the ICS. The Commission recognises that ICS recipients will face a significant step-down in their effective rate of assistance when the ICS ceases. However, it considers that firms should have planned for this eventuality, since the Scheme was not intended to provide long-term support for TCF exports, and its termination date was clearly announced several years ago.

The manufacturers’ concession proposed by the industries amounts to a production subsidy, but paid in the form of import duty credits rather than in cash, like the Import Credit Scheme. In the Commission’s view, it is unlikely that a scheme could be designed which satisfied the competing demands of providing targeted assistance to domestic TCF manufacturing and adherence to the criteria for WTO non-actionable status. Australian companies have learnt from experience that being a small exporter...
does not ensure immunity from this type of action.

A straightforward production bounty would have some advantages over such a concession scheme, although it would share many of its disadvantages. It would be more transparent and easier to administer, with lower transaction costs for companies and government alike. A bounty could be capitalised to provide a lump sum which could be used for rationalisation or modernisation.

**TCF Adjustment Bounty**

The Commission has considered a temporary production bounty as a possible form of adjustment assistance for TCF companies facing tariff reductions.

The Commission recognises that a bounty on value-added is less distorting and more transparent than all other measures suggested by the industries, including a tariff pause. It takes the view that a temporary, declining bounty on value-added would be the preferable form of additional transitional assistance after 2000, should the Government wish to provide such assistance. However, a bounty involves problems. A threshold level of value added would be necessary to contain administrative costs: this would exclude many small and medium-sized firms from eligibility. Bureaucratic discretion in administration of bounty schemes creates difficulties and would need to be minimised. A bounty also would not satisfy all of the criteria for such assistance outlined above, especially those of equity and targeting. **Accordingly, the Commission does not recommend a bounty as a form of adjustment assistance.**

**TCF research and development**

High levels of protection in the past discouraged innovation. Research and development (R&D) expenditures on TCF have been low relative to other manufacturing industries in Australia and restricted to a narrow range of products and firms. In part this may be because much of this expenditure is not eligible for existing R&D promotion programs. Innovation in both
products and processes must play a key role in determining the future competitiveness of these industries. It is therefore important that the framework for R&D be improved in TCF.

The Commission considers that there is a need for additional assistance for TCF R&D as part of the TCF adjustment package and recommends that a TCF Technology Development Fund of $10 million be established as part of the adjustment package. The Fund should be available for use between 1 July 2001 and 30 June 2008.
The Commission recommends a package of policy changes, designed to improve the overall economic performance of the Australian economy and to increase the welfare of all Australians. These changes create incentives to develop sustainable, prosperous and internationally competitive TCF industries in Australia, with benefits for Australian consumers and taxpayers. They also ensure that Australia meets its international obligations and commitments.

The Commission’s major recommendations and implementation strategy are:

This should be the last sectoral program to apply to these industries. The program for changes to assistance should be legislated and inscribed in Australia’s APEC Individual Action Plan.

A program of phased tariff reductions to 5 per cent by 1 July 2008 should be implemented without pause from 1 July 2001 (as per Option 1).

Policy by-laws should be terminated as of 1 July 2008.

The Overseas Assembly Provisions Scheme should be extended and simplified.

A program of adjustment assistance should be implemented to accompany the tariff reduction program, including:

- separation of eligibility for employment services from eligibility for social security benefits so that jobseekers who are not immediately eligible for benefits can gain immediate access to employment services if needed. Other eligibility criteria would still apply. This is likely to require an increase in funding for general employment services;
- use of the program of assistance for depressed regions if there is significant displacement of TCF workers in non-metropolitan regions with relatively high unemployment;
- the establishment of a national centre of excellence for TCF;
- the introduction of travelling scholarships for study in world centres of excellence in TCF;
- the establishment of a TCF Technology Development Fund of $10 million over the life of the program; and
- the establishment of an Internet-based TCF information network.
ALTERNATIVE ANALYSIS: MR P. BRASS — OVERVIEW

1.1 My responsibility to the IC

I was appointed an Associate Commissioner of the Industry Commission to report on Australian textile, clothing and footwear (“TCF”) industries on the strength of my background in the sector, which began with a Melbourne family footwear business and extends to Managing Director of the listed Pacific Dunlop Group.

My role in this Inquiry is to bring commercial experience, understanding and judgment to the Industry Commission (“IC”). Given:

... the Government’s desire to encourage the development of sustainable, prosperous and internationally competitive TCF manufacturing activities in Australia; ... (Terms of Reference, 3rd paragraph)

it is incumbent on me to ensure that the circumstances and perspective of TCF industries, businesses and management are properly considered by the IC. My background in industry also equips me to check the findings and recommendations of the IC against commercial judgment and experience, which is important given the abstract level of some of the economic analysis.

I am committed to efficiency in TCF industries, notwithstanding the implications for many domestic businesses, and appreciate the importance of free trade for the Australian economy. There is an economic efficiency cost associated with the provision of assistance to particular industries, reflected in economy-wide consumption, which has to be borne in mind given:

... the Commission aims to improve the overall economic performance of the Australian economy; (Terms of Reference, 2nd paragraph)

It is the responsibility of the IC to achieve an optimal balance between the often conflicting objectives of this Inquiry quoted above.

There is a general consensus throughout the TCF community in relation to the desirability and inevitability of achieving free trade in 2010 and the other Commissioners and I agree in many of our observations, much of the analysis and most recommendations. In this alternative analysis, I accept
the observations, analysis and conclusions of the other Commissioners, except where expressly or impliedly inconsistent with this analysis.

I am not confined by formal economic analysis nor obliged to undertake comprehensive macroeconomic analysis of my recommendations. In places, I recommend industry programs without providing precise detail. I am not resourced for these purposes. If the concepts I propose hold merit, the authorities responsible for developing and implementing policy will generate required detail.

1.2 Vision of TCF in the free trade environment

I have a vision for sustainable, prosperous and internationally competitive Australian TCF industries in 2010. By that time, I hope and expect that the Asia-Pacific Economic Co-operation forum (“APEC”) regime of free trade will be largely in place and barriers to most major trading partners’ markets will be reduced to negligible levels.

Australian TCF industries will survive and prosper in sectors and niches of competitive advantage.

Our relatively high labour costs will not prevent us from maintaining viable industries, but we will be largely confined to specific areas of activity, including the processing of Australian primary output, production of branded and other proprietary goods, capital- and technology-intensive operations, quick and highly responsive supply and uniquely Australian product. I anticipate a migration within Australian TCF to these sectors and the industries will be more compact, employing fewer people.

Within TCF manufacturing businesses, Australian elements and sub-processes will complement foreign-sourced elements and sub-processes for optimum costing and quality of output.

Production will continue in regional centres, although the overall contraction in manufacturing will be felt disproportionately outside the capital cities.

1.3 IC Draft Report: change of circumstances

Currently, protection for TCF industries is being adjusted downwards incrementally under a pre-set schedule which will achieve tariff reductions
from 55% to 25% for apparel and certain finished textiles, 40% to 15% for woven fabrics and 45% to 15% for footwear over the decade to 2000.

The IC Draft Report of June 1997 recommended continuing unilateral reduction of tariffs on TCF product to 5% by 2008. On the available information and in the belief that the yet-to-be-delivered Monash Centre for Policy Studies model would substantiate a positive cost-benefit analysis, I was a party to the Draft Report, subject to a proviso regarding a production bounty to assist TCF businesses to adapt to the new low tariff regime.

Since then, circumstances have changed.

Firstly, submissions responding to the IC Draft Report have questioned certain assumptions, logic and conclusions underpinning the recommendation of ongoing, unilateral tariff cuts and I now have serious reservations in relation to the analysis. If the analysis, or the underlying Monash model, are flawed, they cannot provide a basis for TCF policy.

Secondly, the opposition of business, together with industry, community and welfare groups and governments at state and local level, has been vehement. Conversely, the few expressions of support received have been muted. This is significant because the sentiment underlying the opposition is not an ephemeral factor, but a major determinant of investment and, therefore, the future of Australian TCF. At the level of individual businesses, shareholders, boards, management and financiers will decide whether or not to continue domestic production. At industry level, the fate of Australian TCF and tens of thousands of jobs hang precariously.

Observers of the IC will recognise elements in my recommendations put in submissions responding to the Draft Report. They will also note that I have not acceded to certain major requests by business and industry. My position lies between the economic analysis of the IC and the interventionist demands of industry on the basis that each policy element has to be weighed according the cost/benefit of including it in a comprehensive TCF strategy.

### 1.4 Philosophy of the alternative analysis: cost-benefit calculation

To make sense of the TCF debate, it is necessary to articulate and quantify, meaningfully and reliably - in so far as that is possible, the costs and benefits of policy alternatives for achieving free trade by 2010.
What are the benefits of unilateral tariff reduction?

Tariff reduction seeks to partially and incrementally restore the allocative inefficiency caused by diversion of resources into internationally inefficient industries, i.e. production losses, and price-based distortion of purchasing patterns, i.e. consumption losses.

According to IC estimates, the burden of consumer tax equivalent plus related costs upon consumers is $1.9 billion (based upon 1996-97 tariff levels) and the cost to aggregate consumption at 2013-14 will be $110 million (based upon 2000 tariff levels). The benefit of proceeding with tariff reduction from 2000 irrespective of trading partners’ policy is that the inefficiencies in the economy are rectified more quickly, with savings retained in each year and compound growth on those savings.

I make the following observations regarding this analysis:

Firstly, the consumer tax equivalent plus related cost figure is not an appropriate measure of overall economic cost as it is a gross number and takes no account of the associated gains to the consolidated revenue and other sectors of the economy. Further, it is based upon published 1997-98 tariff levels which will be substantially reduced by 2000 and takes no account of the ‘anomalies’ in the tariff system which lower the average actual rate applied.

Secondly, the reduction in aggregate consumption is a more appropriate measure of the annual cost of tariffs, but $110 million is a very modest cost in the context of industries that provide such substantial employment. It represents approximately six dollars per head of population, which I regard as an acceptable cost given the contribution of TCF industries to the economy, society and communities.

Thirdly, there is dispute regarding the IC’s analysis, the underlying model and the economic cost associated with tariffs. Submissions by industry groups and business have identified contentious issues including the assumption that margins in pricing of domestic product rise and fall to the full extent of tariffs, that lower TCF prices will be passed on to consumers in full and that employment is (or will achieve) a constant level.

If the Monash model is defective and the cost to aggregate consumption is closer $64 million, as suggested by Econtech in its model, then the per capita cost is approximately $3.50. This does not affect the balance of the cost/benefit analysis, but it illustrates the susceptibility of economic models to error, inaccuracy and manipulation and underscores the importance of judgment and experience to corroborate econometric output.
There is a diminishing marginal economic benefit in reduction of tariffs relative to the rate of assistance: Econtech’s modelling projects that the annualised welfare cost associated with assistance to TCF was $950 million in 1984/85, $130 million in 1996/97 and will be $60 million in 2000/01. Much of the overall benefit to the Australian economy will have been achieved by 2000 when tariffs are set at 15% and 25% and further unilateral reductions to 5% will be of marginal value.

What are the costs associated with unilateral tariff reduction?

Whilst the analysis of “benefit” under the Monash model may or may not be reliable - it does not affect my recommendation - the cost analysis is grossly understated. The economic, social and human implications of unilateral tariff cuts will be severe.

The Monash model incorporates a “base case” for employment in TCF industries, assuming tariffs frozen at 2000 levels and elimination of the ICS. Depending upon the level of export growth (there are two scenarios), the base case depicts a 17-23% reduction in TCF employment from 1997-98 levels. If tariffs are cut to 5% on a continuing and unilateral basis, there will be a further 6% reduction, representing job losses of 5,000 - 6,000.

In view of the reaction of the industry to the IC Draft Report and the likely effect of tariff cuts on business sentiment, I expect that the loss of jobs will be much larger than forecast. My reasons are as follows:

Firstly, major Australian TCF firms appearing before the IC have stated that unilateral reduction in tariffs will render much of their domestic production uneconomic. I know many of the individuals concerned personally and do not doubt their sincerity. There would be major closures and diversion of production off-shore. It is unrealistic to expect that export markets will expand to occupy lost domestic production capacity when domestic market demand is so denuded by imported product and I find the Monash model’s projected growth in exports post-2000 (notwithstanding the termination of the Import Credit Scheme (“ICS”)) unlikely. In fact, the export effort will suffer from loss of the support of local sales.

Generally, the loss of production and dissipation of economies of scale will have a compounding effect and there is a real danger of losing the critical mass necessary for viable TCF industries. As factories close, holes in the supply chain will grow larger with serious up- and down-stream consequences.
Many employment figures have been offered in submissions to the IC and it is reasonable to me, given the views expressed by industry, to expect job losses in the vicinity of 40,000+, given the crushing effect of unilaterally removing protection on confidence, sentiment and outlook for industries hard pressed to survive the current tranche of tariff reductions through to 2000.

Secondly, it is projected that reduction of tariffs will have collateral benefits in other sectors of the economy. There is a theory that resources are transferred between sectors of the economy by a myriad of channels and that any leakage of resources off-shore will be made up in adjustment to prices, exchange and interest rates. I do not accept that markets will do this efficiently and the process of transmission and adjustment will take considerable time.

Finally, there is a terrible human and social cost attached to joblessness, which is not counted in the economic cost/benefit equation, and it falls heavily on disadvantaged sectors of the community.

TCF industries provide major and, in some cases, core employment for many regional populations where isolation limits alternative employment opportunities. Re-employment statistics for persons retrenched from regional TCF manufacturing reveal poor prospects for workers and the towns likely to be affected by factory closures.

Migrant women, a disproportionately large section of the TCF workforce, are particularly vulnerable to long term unemployment because they lack the skills and support to compete effectively in the job search process. Their situation and prospects are very bleak and I feel for them.

The other Commissioners have examined labour market, employment and social issues in great detail and weighed competing factors in the TCF policy equation, but I cannot agree with the balance they have struck. I consider it unreasonable to permit the toll of tariff reform to fall so heavily on TCF employees, many of whom are drawn from vulnerable and disadvantaged groups in society.

*The economic cost of lost production and joblessness in TCF industries will be immense and the cost/benefit analysis weighs heavily against the marginal benefit of ongoing, unilateral tariff reductions. The social and human ramifications add to the equation. Therefore, I am obliged to make an alternative recommendation to my fellow Commissioners.*

My Recommendation
The essential features of my position on TCF policy are set out in six recommendations:

**Tariff pause, examination of the international trading environment & multi-lateral tariff reductions from 2005**

1. Tariff Pause
2. Administrative Examination of Progress in Trade Liberalisation
3. Multi-Lateral Tariff Reduction
   
   *Positive Assistance*

4. Financial Assistance to Facilitate Adjustment to Free Trade and Replace the ICS
   
   *Other Measures*

5. Broader & Deeper Overseas Assembly Provisions (“OAP”)
6. Enhanced Anti-Dumping

**Tariff pause, examination of the international trading environment & multi-lateral tariff reductions from 2005**

I recommend a pause in tariff reduction in the period 2000 to 2005. This is necessary to minimise the trauma to businesses of adjustment to lower protection, enable organisations to take stock of productivity gains achieved in period to 2000 and facilitate migration and adaptation of businesses to the sectors and niches of competitive advantage for Australian TCF. It is also important for industry morale and an environment conducive to investment.

In 2004, there should be an administrative examination of progress in dismantling trade barriers. This examination will measure international conduct in liberalisation of TCF markets against pre-set guidelines; principally progress within APEC towards 2010/2020 free-trade targets and implementation of the World Trade Organisation (“WTO”) Textile and Clothing Agreement to remove quotas imposed under the Multifibre Arrangement. This is a bare administrative function to be undertaken by the appropriate government department, most likely the Department of Foreign Affairs & Trade (or its successor). It is not a policy-formulating exercise nor a venue for re-opening the commitment to multi-lateral tariff reduction.
Tariffs will be reduced to 5% in the period from 2005 to 2010, conditional upon a positive finding in the administrative examination described above.

To meet the 2010 target of 5% tariffs, it will be necessary to reduce tariffs at approximately double the rate prescribed by the concurring Commissioners. The industries’ experience of tariff cuts in the late 1980s and early 90s, preparation during the tariff pause period and the context of global trade liberalisation will enable Australian TCF to manage the steep descent in tariff protection.

By setting down criteria to trigger multi-lateral tariff reduction, we establish a standing incentive for our trading partners to reduce protection in their markets.

Note that unilateral tariff reduction imposes a high hurdle for the survival of Australian businesses as our domestic market would be open to trading partners, but international markets remain corrupted by trade diversion caused by protectionism. In particular, export markets for our primary output are limited by quotas upon the product manufactured by our customers from that output. This is a higher hurdle than will exist in the free trade era, when both domestic and export markets are open and accessible to all. The greatest problem with unilaterally relaxing protection of our market is that TCF businesses that might flourish in the APEC free trade environment post-2010 would be culled in the severe interim trading conditions.

I appreciate that the element of certainty is important for the investment climate but the regime established under my recommendations will clearly be more conducive to investment in Australian TCF than that proposed by my fellow Commissioners. Whether tariff reductions proceed from 2005 will depend upon factors that will emerge through the period 2000-2005, giving businesses an indication of the likely direction of tariff adjustment.

Positive assistance

I recommend a program (or programs) of positive assistance funded from or capped at the level of tariff revenue to perform two distinct, but important, functions.

Firstly, it will enable Australian TCF businesses to position themselves in viable sectors and niches in advance of 2010. This will require business planning, product and systems development, adaptation/rationalisation of plant and equipment and re-skilling in the workforce. The cost of transforming businesses will be substantial and assistance based upon
(projected) turnover or value added will be made available in the period 2000-2005 on the basis that the it will have greatest impact if delivered intensively, during the tariff pause prior to the rapid reduction in tariffs from 2005.

Secondly, it will replace the highly successful ICS, one of the great successes in Australian trade policy, on a WTO-compatible basis. This element of TCF policy may effect a temporary increase in overall assistance over a short period, 2000-2005, but it will be a significantly lower effective rate of assistance than the level of the late 1980s and early 90s and will not represent a significant regression in trade liberalisation in the context of a general trend towards reduced tariffs in the period between now and 2010. I have no objection to such an arrangement.

The positive assistance may assume the form of a bounty or concession. I leave this detail, together with the rate, to the relevant authorities.

**Extended OAP**

My fellow Commissioners have identified that it is necessary to broaden, i.e. extend the parameters of eligibility of, the OAP program. I consider it an imperative to deepen, i.e. raise the value of the duty free incentive of, the OAP, too. These arrangements are necessary given the likely importance of co-sourcing sub-processes from on- and off-shore in TCF manufacturing operations post-2000 and the diminishing value of limited duty relief in a falling tariff environment.

**Anti-dumping**

I propose enhanced anti-dumping protection against corrupt world markets and unfair trading practices, incorporating a trigger mechanism to automatically begin consideration of sanctions under WTO rules. This is particularly important given the six-month lag in fashion seasons between the Northern and Southern hemispheres and the fact that small TCF firms lack the resources to pursue anti-dumping actions effectively.

**Matters of merit outside my recommendation**

I am unable to recommend policy features identified in many submissions to the IC on the basis that they do not satisfy the cost/benefit threshold for inclusion in a comprehensive TCF policy. For example, I do not make tariff reduction conditional upon microeconomic reform or changes to payroll and wholesale sales tax regimes on the basis that these matters may be desirable, but they do not warrant holding up trade liberalisation if the
international community is poised to open its markets. I urge government and industry to act on these matters, nonetheless.

There are other matters which lie principally within the domain of industry, not government, such as development of supply chain linkages, total quality management (TQM) & world best practice (WBP) and the elimination of productivity-limiting elements in management, union and other workplace arrangements.

*Industry, businesses and unions have come together in a concerted effort to resist unilateral tariff reduction and if the same unity of purpose can be applied to further improvement of productivity in Australian TCF, our industries will be extremely competitive in the free trade environment post-2000.*

*My analysis*

I understand that high tariffs cause large welfare losses, but there is a diminishing marginal loss at progressively lower tariff levels. In formulating my recommendations for Australian TCF policy, I have conducted a cost-benefit analysis, related back to the terms of reference of this Inquiry.

The overall cost, in economic terms, is a deferral of the partial and incremental restoration of allocative efficiency associated with reduction in tariffs on TCF product. I do not know the precise value of the aggregate consumption foregone: the IC was unable to cost the pause in tariff reduction for me using the Monash model. Even if it is $6 per head of population per year) it is a trifling cost relative to the importance of Australia’s TCF industries.

The overall benefit is the realisation of the vision of sustainable, prosperous and internationally competitive TCF industries described in this alternative analysis. Invariably, some factories will close and production move off-shore in the period between now and 2010, but the balanced and measured route to free trade I recommend will enable viable businesses to migrate to the sectors and niches of competitive advantage. This is the key to the future of Australian TCF in the open trading regime under APEC.
RECOMMENDATIONS

All Commissioners agree that assistance arrangements after 2000 should involve a reduction of TCF tariffs to 5 per cent in order to bring TCF into line with the general tariff rate for manufacturing and to prepare for free trade in APEC developed countries by 2010. It is agreed that this tariff policy should be accompanied by transitional adjustment assistance.

Recommendations of all Commissioners

General

Recommendation 1

The policy adopted by the Government for these industries should be the last sectoral program to apply to them. The program for changes to assistance should be legislated and tariff reductions inscribed in Australia’s APEC Individual Action Plan.

(Chapter 11)

Employee assistance

Recommendation 2

Eligibility for employment services should be separated from eligibility for social security benefits so that jobseekers who are not immediately eligible for benefits (such as newly arrived migrants, people receiving redundancy payments and those with employed spouses, subject to means testing) could gain immediate access to employment services. Other eligibility criteria would still apply (eg, means testing, unemployment duration, ‘at high risk’ assessment). This is likely to require an increase in funding for general employment services.

(Chapters 4 & 11)

Recommendation 3

Information about DEETYA and DIMA English language and literacy programs should be improved with a view to increasing participation in English language training by non-English speaking TCF workers, homeworkers and jobseekers. Options to improve access should also be considered, including a voucher system to enable migrants to undertake the Adult Migrant English Program at
times convenient to them without the current registration, commencement and completion time restrictions.

(Chapter 11)

**Recommendation 4**

If there is significant displacement of TCF workers in a non-metropolitan region with relatively high unemployment, assistance should be provided through the program of assistance for depressed regions.

(Chapter 11)

**Recommendation 5**

A national centre of excellence for TCF training should be established.

(Chapters 3 & 11)

**Recommendation 6**

Travelling scholarships for study in world centres of TCF excellence should be introduced.

(Chapters 3 & 11)

**Homeworkers**

**Recommendation 7**

The TCF industries should continue the process of implementing voluntary agreements and the Code of Conduct with retailers and government agencies to promote adherence to legal minimum payments and employment conditions for homeworkers.

(Chapter 3)

**Industry assistance**

**Recommendation 8**

A TCF Technology Development Fund should be established, to the value of $10 million over the life of the program.

(Chapters 1 & 11)

**Recommendation 9**

The Government should facilitate the establishment of an internet-based information network to help TCF firms develop ‘virtual clusters’. Once established, the TCF industries would be responsible for funding, managing and operating the network.

(Chapters 1 & 11)
**International trade**

**Recommendation 10**

The Australian Government should monitor implementation of the WTO Agreement on Textiles and Clothing and encourage the phase-out of quantitative restrictions according to the agreed timetable.

*(Chapter 7)*

**Recommendation 11**

As part of Australia’s ongoing trade negotiations, the Australian Government should monitor other countries’ non-tariff barriers and support their removal wherever possible.

*(Chapter 7)*

**Recommendation 12**

The Australian Government should monitor other countries’ interventions in fibre and hide markets to ensure their consistency with WTO rules.

*(Chapter 7)*

**Recommendation 13**

The Australian Government should press for reduced TCF tariff escalation in future WTO negotiations.

*(Chapter 7)*

**Recommendations of Mr Cosgrove and Professor Snape**

**Recommendation 14**

TCF tariffs should be reduced steadily to 5 per cent by 1 July 2008, as specified in the table below:

**Preferred Option (Option 1) - Tariff rates**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing and other finished textiles</td>
<td>25</td>
<td>22</td>
<td>19</td>
<td>16</td>
<td>13</td>
<td>11</td>
<td>9</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Cotton sheeting and fabrics</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Carpet</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear parts</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other (eg yarns)</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Policy by-laws should be terminated as of 1 July 2008.
Recommendation 15

The Overseas Assembly Provisions (OAP) Scheme should be retained but in an expanded form. Eligible processes should be expanded to include the conversion of yarns to fabrics; and of fabrics and leather to finished goods. Post-assembly processes such as labelling should also be allowable.

The discretionary elements of the scheme should be removed. Applicants could gain access to the scheme in ways analogous to the existing TEXCO/duty drawback provisions. The ACS should administer the scheme. The onus of establishing Australian content would be on the importer.

(Chapter 11)

Recommendation 16

The Import Credit Scheme should terminate as scheduled on 30 June 2000.

(Chapter 9)

Recommendations of Mr Brass

Recommendation 17

There should be no further reduction in TCF tariffs in the period from 2000 to 2005.

Recommendation 18

In 2004, there should be an administrative examination of international progress in trade liberalisation. Guidelines are to be set for this purpose, now, and there will be no resetting of policy or reopening of the commitment to tariff reduction. The examination will be undertaken by the Department of Foreign Affairs & Trade (or its successor).

Recommendation 19

If the administrative examination described in Recommendation 18 returns a positive finding, TCF tariffs should be reduced to 5% over the period from 2005 to 2010.

Recommendation 20

There should be a program of positive assistance to perform two distinct functions:

- to assist Australian TCF businesses to position themselves in viable and sectors and niches, which will involve business planning, product and
systems development, adaptation/rationalisation of plant and equipment
and re-skilling of the workforce; and
• to replace the highly successful ICS, on a WTO-compatible basis.

Recommendation 21
To compensate for the diminishing value of limited duty relief in a falling tariff
environment, the incentive under the Overseas Assembly Provisions should be
made deeper, i.e. raise the value of the duty free incentive. This
recommendation is intended to complement the broadening of the OAP, i.e.
extending the parameters of eligibility.

Recommendation 22
There should be enhanced anti-dumping protection, incorporating a trigger
mechanism to automatically begin consideration of sanctions under WTO rules.
PART A

CHANGING COMPETITIVENESS OF TCF INDUSTRIES

1 Toward an internationally competitive TCF sector

2 World trends in TCF production and trade
TOWARDS AN INTERNATIONALLY COMPETITIVE TCF SECTOR

Textiles, clothing and footwear (TCF) industries are in a state of flux throughout the world as global competition has intensified. Reflecting these international developments as well as changes in domestic circumstances, the Australian TCF manufacturing industries have been transformed over the past decade.

1.1 A decade of change

In the late 1980s, the industries were heavily protected by quotas and tariffs which shielded them from the rigours of international trade. Today, almost two-thirds of that protection has been dismantled.

The overall size of the sector has declined. At a more disaggregated level, however, the reactions of different sections of the industries and of different firms to this changing trading environment have been diverse. Many firms have reacted with vigour and creativity — others have not been able to overcome competitive disadvantages and have ceased operating.

Of those firms which appear to be adapting well, there does not appear to be a single formula for success. Many industries, such as cotton spinning and carpet manufacturing, have rationalised. There has been increasing specialisation as firms focus on areas of competitive advantage. Some firms have placed greater emphasis on brand names, while others have become generic manufacturers. A number of firms have invested substantially in updated technology. New management approaches have been implemented — quick response production, alliance formation, product and process quality, identification of market niches, benchmarking and training are all becoming increasingly common.

Most of the decline in TCF production and employment has occurred in highly labour-intensive activities, broadly unsuited to Australian production. Despite this incompatibility with Australian conditions (in fact, largely because of it), these are the areas which historically have attracted the highest rates of protection from international competition. Yet almost regardless of increases or decreases in levels of protection, employment in these industries has continued its long-term trend of decline.
These changes have been both inevitable and necessary. Even in countries which have maintained high trade barriers, similar trends are evident (see Chapter 2). The importance of moving towards more sustainable activity is highlighted by the Commonwealth Government’s commitment to a free trade environment by the year 2010, under the APEC agreement. In this new environment, Australian TCF industries must continue to move towards areas in which Australian production can be viable in the long term. Some firms already appear well-placed to meet this challenge — others do not.

In the Terms of Reference for this Inquiry, the Government specified that the Commission’s recommendations should improve the overall economic performance of the Australian economy. The Government also asked the Commission to have regard to its desire to:

- encourage the development of sustainable, prosperous and internationally competitive TCF manufacturing activities in Australia — and to improve the overall economic performance of the Australian TCF industries;
- provide good quality, competitively priced TCF products to Australian consumers; and
- abide by Australia’s international obligations and commitments.

There are tensions inherent in these goals. Nevertheless, in the right policy environment, the Australian TCF manufacturing industries can be expected to play a positive role in the future economic development of Australia. Sections of the industries can be sustainable, prosperous and internationally competitive to the benefit of consumers and the economy generally. This may not mean that the industries maintain their present structure or size. However, by moving towards sustainable activities the industries will have prepared themselves well for the challenges ahead. The Commission’s recommendations have been framed with this goal in mind.

This chapter examines several important steps in the industries’ journey towards becoming sustainable, prosperous and internationally competitive. It concludes with an assessment of the major challenges facing the TCF industries in their preparation for a free trade environment.

### 1.2 The changing size and composition of the industries

The Australian TCF industries’ share of manufacturing output and total economic activity is declining. This is consistent with a trend observed in nearly all OECD countries, including those which have maintained higher barriers to international trade than Australia (see Figure 1.1 and Chapter 2).
The Australian TCF industries as a whole have contracted as a result of several factors, including:

- changes in assistance arrangements;
- domestic demand trends;
- general economic conditions; and
- trends in global production and consumption.

**Changing assistance**

Assistance to TCF manufacturing peaked in the mid-1980s — effective rates of assistance greater than 200 per cent for some activities were not uncommon. At this time, the manufacturing sector’s average effective rate of assistance was 20 per cent (see Figure 1.2 and Chapter 6). Assistance to the TCF industries has declined since the introduction of the TCF Button Plan in 1989. Under this plan the Government began the process of encouraging the development of industries which were internationally competitive, export oriented, innovative, responsive to market signals and less dependent on community support. Tariff phasing arrangements were implemented whereby over 7 years the highest TCF tariffs would fall to 60 per cent and quotas would be phased out. Subsequently, the pace of reform was accelerated.
These changes increased the exposure of the TCF industries to the forces of global competition and necessitated restructuring and adaptation in order for the industries to become more internationally competitive. An Industries Development Strategy (IDS) introduced programs to help the TCF industries restructure to an environment of lower tariffs and no quotas. Among other things, it sought to promote modernisation, rationalisation and capital investment through the provision of capital grants. An Import Credit Scheme (with exports earning credits to offset import duty) was introduced in July 1991 (see Chapter 9).

**Domestic demand trends**

Changing patterns of consumer demand have affected the size of the domestic TCF market. This has had important implications for the Australian TCF industries, which have had a strong domestic focus. Australians currently allocate, on average, about 5 per cent of their total final consumption expenditure to clothing and footwear, a significantly lower proportion than at any time over the last few decades. This trend is common to all developed countries and has emerged also in some developing countries such as Thailand and Sri Lanka (see Appendix E).

These changes in consumption patterns explain a significant proportion of the very low growth in domestic demand for TCF products over the past decade. If, as expected, this trend continues, it will increase the need for Australian TCF manufacturers to seek out markets overseas.
General economic conditions

The Australian TCF industries, like many other industries, have been affected by changes in the business cycle. As shown in Figure 1.3, TCF output fell sharply during the recession of the early 1990s. However, output appears to have stabilised somewhat after this time. Of the fall in total TCF output that occurred over the decade to 1994-95, around 67 per cent occurred between 1990-91 and 1992-93. Nearly all of the total decline has been in the clothing and footwear industries.

Although calculated from different sources and so not strictly comparable, more recent data provide some corroborative evidence of a much slower rate of decline in the industries in recent times. According to national accounts data, in 1996-97 total TCF output was 3 per cent higher than in 1994-95 (ABS 1997j).

Global trends

The TCF industries in Australia are not alone in facing adjustment pressures. TCF industries in all developed countries are facing adjustment pressures resulting from a changing world environment. There have been considerable job losses and declines in production in most major developed economies, while TCF industries in developing countries have grown and now supply more than half of the world’s exports of clothing. There has been a shift of some of the more labour-intensive components of Australian TCF manufacture to low-wage
countries, particularly China. Chapter 2 outlines in detail this and other world trends in TCF production and trade.

1.2.1 Adjustment so far

Some parts of the Australian TCF industries have proven to be more resilient than expected when the process of reform commenced over the last decade. In the 1986 Industries Assistance Commission (IAC) inquiry, the TCF Council of Australia (TCFCA, the precursor to the Council of Textile and Fashion Industries of Australia (TFIA)) estimated the likely response of the TCF industries to reductions in barrier assistance. The TCFCA estimated the effect on the industries of reducing protection to a maximum tariff equivalent of 50 per cent over the seven years from 1988 to 1995. Under the Industry Plan actually implemented, the maximum TCF tariff in 1994-95 was 43 per cent and bounties and quotas had been removed. That is, there had been a greater reduction in barrier assistance than under the TCFCA’s assumptions — although it should be noted that some activities benefited substantially from government industry development programs. The TCFCA’s expectations of the effects of reduced protection and the actual outcomes over the period 1988-89 to 1994-95 are compared below:

- the yarn sector would ‘disappear’ — in fact, gross product at factor cost in the wool, cotton and synthetic textile industries fell by less than 1 per cent;
- activity in hosiery would fall by 75 to 80 per cent — hosiery gross product at factor cost fell by 37 per cent;
- all manufacturers in ‘other knitted goods’ would cease production — ‘other knitted goods’ gross product at factor cost fell by 30 per cent;
- no domestic production of sleepwear would be viable — sleepwear gross product at factor cost fell by 14 per cent and sleepwear exports have risen by 680 per cent; and
- footwear production would drop by 75 per cent — footwear gross product at factor cost fell by 37 per cent (IAC 1986 and Commission estimates derived from unpublished ABS Manufacturing Industry data — see Appendix B).

Output

Although there has been a reduction in the overall size of Australia’s TCF industries, performance of individual companies and industries has varied (see Table 1.1).
Table 1.1: Gross product at factor cost, by industry, ($1994-95)

<table>
<thead>
<tr>
<th>Industry</th>
<th>1984-85 ($m)</th>
<th>1988-89 ($m)</th>
<th>1994-95 ($m)</th>
<th>Growth 1984-85 to 1994-95 (%)</th>
<th>Proportion of total TCF in 1994-95 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wool scouring</td>
<td>77.0</td>
<td>69.3</td>
<td>87.5</td>
<td>13.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Synthetic fibre textiles</td>
<td>329.5</td>
<td>335.0</td>
<td>335.0</td>
<td>1.7</td>
<td>10.1</td>
</tr>
<tr>
<td>Cotton textiles</td>
<td>150.1</td>
<td>150.7</td>
<td>197.0</td>
<td>31.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Wool textiles</td>
<td>161.7</td>
<td>136.2</td>
<td>85.9</td>
<td>-46.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Textile finishing</td>
<td>77.2</td>
<td>124.6</td>
<td>122.1</td>
<td>58.0</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Textile fibres yarns and woven fabrics</strong></td>
<td><strong>795.6</strong></td>
<td><strong>815.8</strong></td>
<td><strong>827.4</strong></td>
<td><strong>4.0</strong></td>
<td><strong>25.0</strong></td>
</tr>
<tr>
<td>Made-up textile products</td>
<td>153.9</td>
<td>197.0</td>
<td>217.9</td>
<td>41.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Textile floor coverings</td>
<td>254.5</td>
<td>292.0</td>
<td>174.3</td>
<td>-31.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Rope, cordage and twine</td>
<td>35.2</td>
<td>36.4</td>
<td>37.1</td>
<td>5.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Textile products nec</td>
<td>144.1</td>
<td>168.7</td>
<td>106.3</td>
<td>-26.2</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Textile products</strong></td>
<td><strong>587.7</strong></td>
<td><strong>694.1</strong></td>
<td><strong>535.5</strong></td>
<td><strong>-8.9</strong></td>
<td><strong>16.2</strong></td>
</tr>
<tr>
<td>Hosiery</td>
<td>118.3</td>
<td>170.8</td>
<td>107.3</td>
<td>-9.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Cardigans and pullovers</td>
<td>152.9</td>
<td>94.5</td>
<td>54.6</td>
<td>-64.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Knitting mill products nec</td>
<td>252.8</td>
<td>258.4</td>
<td>182.7</td>
<td>-27.7</td>
<td>5.5</td>
</tr>
<tr>
<td><strong>Knitting mills</strong></td>
<td><strong>524.1</strong></td>
<td><strong>523.6</strong></td>
<td><strong>344.6</strong></td>
<td><strong>-34.2</strong></td>
<td><strong>10.4</strong></td>
</tr>
<tr>
<td>Men’s and boys’ wear</td>
<td>579.0</td>
<td>613.1</td>
<td>370.5</td>
<td>-36.0</td>
<td>11.2</td>
</tr>
<tr>
<td>Women’s and girls’ wear</td>
<td>450.1</td>
<td>484.0</td>
<td>440.2</td>
<td>-2.2</td>
<td>13.3</td>
</tr>
<tr>
<td>Sleepwear, underwear and infant clothing</td>
<td>212.4</td>
<td>236.3</td>
<td>204.2</td>
<td>-3.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Clothing nec</td>
<td>168.4</td>
<td>290.2</td>
<td>221.3</td>
<td>31.4</td>
<td>6.7</td>
</tr>
<tr>
<td><strong>Clothing</strong></td>
<td><strong>1 409.9</strong></td>
<td><strong>1 623.6</strong></td>
<td><strong>1 236.2</strong></td>
<td><strong>-12.3</strong></td>
<td><strong>37.3</strong></td>
</tr>
<tr>
<td><strong>Footwear</strong></td>
<td><strong>390.3</strong></td>
<td><strong>376.0</strong></td>
<td><strong>237.4</strong></td>
<td><strong>-39.2</strong></td>
<td><strong>7.2</strong></td>
</tr>
<tr>
<td>Leather tanning and fur dressing</td>
<td>86.1</td>
<td>103.9</td>
<td>102.6</td>
<td>19.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Leather and leather substitute products</td>
<td>33.5</td>
<td>31.1</td>
<td>31.5</td>
<td>-6.0</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Leather and leather products</strong></td>
<td><strong>119.6</strong></td>
<td><strong>135.0</strong></td>
<td><strong>134.1</strong></td>
<td><strong>12.1</strong></td>
<td><strong>4.0</strong></td>
</tr>
<tr>
<td>Total TCF</td>
<td>3 827.2</td>
<td>4 168.1</td>
<td>3 315.2</td>
<td>-13.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total TCF less wool scouring</td>
<td>3 750.2</td>
<td>4 098.9</td>
<td>3 227.7</td>
<td>-13.9</td>
<td></td>
</tr>
<tr>
<td>All manufacturing</td>
<td>55 856.6</td>
<td>64 956.2</td>
<td>67 074.3</td>
<td>20.1</td>
<td></td>
</tr>
</tbody>
</table>

Note: The period 1984-85 to 1994-95 has been used in this chapter because it provides comparable points in the business cycle and because it continues the data series from the 1986 Industries Assistance Commission TCF report.

nec = not elsewhere classified.

Source: Estimates based on unpublished ABS Manufacturing Industry Survey data.
Some industries have expanded while others declined. Differences in sectoral performance are evident in value added, as measured by gross product at factor cost. For example, the knitting mill and footwear industry groups’ shares of total TCF gross product fell, while those of textiles and leather rose.

Some industries, such as cotton spinning and leather tanning, have grown without high levels of barrier assistance, although they have benefited from other forms of assistance such as grant funding and the Import Credit Scheme (discussed in Chapters 8 and 9). In the textiles industries, total gross product has fallen by less than 2 per cent, and the textile finishing and made-up textile product industries have shown considerable growth. Industrial textiles are produced by the synthetic and cotton textiles, and rope, cordage and twine manufacturing industries, among others. These industries have increased their output over the period.

Those TCF industries which increased their gross product accounted for 40 per cent of total TCF gross product in 1994-95 (an increase from 28 per cent in 1984-85). Some industries continued to grow after 1984-85 and have experienced sharper declines in output since the peak of the business cycle and the commencement of protection reductions, while for other industries this is not the case.

**Employment**

Although there was some growth between May 1985 and May 1989, total TCF employment declined by about 12 per cent, or around 13 400 jobs, between May 1985 and May 1997. Over the same period, despite some short-term volatility, manufacturing employment has not changed significantly. Employment in the economy as a whole has grown by about 26 per cent (or about 1.7 million jobs) (see Table 1.2 and Appendix C).

The decline in TCF employment was greatest between 1989 and 1992 when TCF production contracted significantly in response to a number of factors including the recession, increased import competition and changed consumer tastes. Over this period alone, close to 21 000 jobs or 18 per cent of the TCF workforce were shed.

ABS data show the rate of job loss slowing, with some volatility around a more even trend. Nonetheless, information provided by participants suggests that further employment rationalisation is likely under the existing policy environment.

The decline in total TCF employment since 1985 conceals varied experience among the main TCF industries. More than 96 per cent of the decline in
employment in TCF industries over the period occurred in the clothing manufacturing industry. However, the largest proportionate decreases were in knitting mills, textile fibre, yarn and woven fabric manufacturing, and footwear manufacturing.

In contrast, there was strong employment growth in both textile product manufacturing and leather and leather product manufacturing industries. Employment in each of these industries expanded by more than 70 per cent between 1985 and 1997. Chapter 3 discusses employment issues in more detail.

### Table 1.2: Employed persons, by industry, May 1985 to May 1997

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile fibres, yarns and woven fabrics</td>
<td>20.3</td>
<td>15.5</td>
<td>15.3</td>
<td>14.2</td>
<td>11.6</td>
<td>-42.9</td>
</tr>
<tr>
<td>Textile products</td>
<td>12.6</td>
<td>15.3</td>
<td>15.2</td>
<td>17.0</td>
<td>21.7</td>
<td>72.2</td>
</tr>
<tr>
<td>Knitting mills</td>
<td>8.2</td>
<td>10.2</td>
<td>9.9</td>
<td>9.0</td>
<td>3.7</td>
<td>-54.9</td>
</tr>
<tr>
<td>Clothing</td>
<td>62.2</td>
<td>59.9</td>
<td>51.2</td>
<td>52.6</td>
<td>49.3</td>
<td>-20.7</td>
</tr>
<tr>
<td>Footwear</td>
<td>9.7</td>
<td>10.6</td>
<td>7.3</td>
<td>9.0</td>
<td>7.0</td>
<td>-27.8</td>
</tr>
<tr>
<td>Leather and leather products</td>
<td>3.8</td>
<td>5.5</td>
<td>3.7</td>
<td>7.3</td>
<td>10.2</td>
<td>168.4</td>
</tr>
<tr>
<td><strong>All TCF</strong></td>
<td><strong>116.9</strong></td>
<td><strong>117.0</strong></td>
<td><strong>102.6</strong></td>
<td><strong>109.1</strong></td>
<td><strong>103.5</strong></td>
<td><strong>-11.5</strong></td>
</tr>
<tr>
<td><strong>All manufacturing</strong></td>
<td>1 127.8</td>
<td>1 165.0</td>
<td>1 099.1</td>
<td>1 112.1</td>
<td>1 128.1</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>All industries</strong></td>
<td>6 657.9</td>
<td>7 354.8</td>
<td>7 703.7</td>
<td>7 879.1</td>
<td>8 389.3</td>
<td>26.0</td>
</tr>
</tbody>
</table>

*Source: Unpublished ABS Labour Force Survey data*

### 1.3 Australia’s international TCF trade performance

Australian TCF firms are becoming increasingly integrated with the international marketplace and, by necessity, are developing global rather than inward-looking strategies. As protection has been wound back, exposure to international competition has increased (see Figure 1.4). Imports have increased, as have exports.

In a mature, slowly growing domestic market in which imports continue to rise, exporting has become an increasingly important strategy for many firms. The growth in exports in the industries has been impressive. In nominal terms, all TCF industries have increased exports (albeit often from a low base) (see Table 1.3).
Sleepwear exports have risen by almost 680 per cent, women’s and girls’ wear exports by 640 per cent, and exports of cardigans and pullovers by 635 per cent. Although TCF exports have grown slightly less rapidly than manufactured exports as a whole, all TCF industries have increased the proportion of their turnover exported. When scoured wool is excluded, TCF exports have grown considerably faster than total manufacturing imports. However, in aggregate, TCF exports as a proportion of industry turnover remain lower than that for all manufacturing (see Table 1.3).

Just as aggregate measures of gross product, exports and imports for total TCF, disguise divergent trends within individual industries, so too do these industry aggregates mask the even more diverse experiences of individual firms.

According to respondents to the 1995 Business Longitudinal Survey, recent impressive export performance of some TCF industries has been accounted for by fewer than 10 per cent of TCF firms. Of those, the average value of exports per textiles and leather firm far exceeds average exports by exporting firms for clothing and footwear, total manufacturing and for all industries (see Table 1.4).

The value of exports per employee for exporting textiles and leather firms also exceeds the clothing and footwear, manufacturing and all industry averages.
TOWARDS AN INTERNATIONALLY COMPETITIVE TCF SECTOR

Table 1.3: Exports, by industry, (current dollars)

<table>
<thead>
<tr>
<th>Industry</th>
<th>1988-89 Exports (m$)</th>
<th>1988-89 Export intensity (%)</th>
<th>1994-95 Exports (m$)</th>
<th>1994-95 Export intensity (%)</th>
<th>Export growth, 1988-89 to 1994-95 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wool scouring</td>
<td>1150.8</td>
<td>nc</td>
<td>1325.1</td>
<td>nc</td>
<td>15.1</td>
</tr>
<tr>
<td>Synthetic fibre textiles</td>
<td>42.7</td>
<td>5.1</td>
<td>100.4</td>
<td>12.5</td>
<td>135.0</td>
</tr>
<tr>
<td>Cotton textiles</td>
<td>27.4</td>
<td>7.7</td>
<td>143.1</td>
<td>32.7</td>
<td>421.9</td>
</tr>
<tr>
<td>Wool textiles</td>
<td>7.1</td>
<td>1.7</td>
<td>23.4</td>
<td>9.1</td>
<td>230.9</td>
</tr>
<tr>
<td>Textile finishing</td>
<td>0.8</td>
<td>0.3</td>
<td>1.5</td>
<td>0.5</td>
<td>74.9</td>
</tr>
<tr>
<td>Textile fibres, yarns and woven fabrics</td>
<td>1 228.9</td>
<td>nc</td>
<td>1 593.4</td>
<td>nc</td>
<td>29.7</td>
</tr>
<tr>
<td>Made-up textile products</td>
<td>10.6</td>
<td>2.5</td>
<td>24.5</td>
<td>3.7</td>
<td>130.6</td>
</tr>
<tr>
<td>Textile floor coverings</td>
<td>36.6</td>
<td>4.3</td>
<td>46.4</td>
<td>8.2</td>
<td>26.8</td>
</tr>
<tr>
<td>Rope, cordage and twine</td>
<td>2.1</td>
<td>3.2</td>
<td>4.0</td>
<td>4.7</td>
<td>94.5</td>
</tr>
<tr>
<td>Textile products nec</td>
<td>25.6</td>
<td>7.8</td>
<td>89.6</td>
<td>31.9</td>
<td>250.3</td>
</tr>
<tr>
<td>Textile products</td>
<td>74.8</td>
<td>4.5</td>
<td>164.5</td>
<td>10.3</td>
<td>119.8</td>
</tr>
<tr>
<td>Hosiery</td>
<td>1.1</td>
<td>0.4</td>
<td>6.0</td>
<td>2.3</td>
<td>450.8</td>
</tr>
<tr>
<td>Cardigans and pullovers</td>
<td>5.5</td>
<td>2.6</td>
<td>40.6</td>
<td>27.7</td>
<td>634.8</td>
</tr>
<tr>
<td>Knitting mill products nec</td>
<td>12.1</td>
<td>2.0</td>
<td>36.5</td>
<td>6.3</td>
<td>202.9</td>
</tr>
<tr>
<td>Knitting mills</td>
<td>18.7</td>
<td>1.6</td>
<td>83.2</td>
<td>8.4</td>
<td>345.3</td>
</tr>
<tr>
<td>Men’s and boys’ wear</td>
<td>17.2</td>
<td>1.4</td>
<td>58.3</td>
<td>6.9</td>
<td>239.3</td>
</tr>
<tr>
<td>Women’s and girls’ wear</td>
<td>11.6</td>
<td>0.9</td>
<td>85.9</td>
<td>6.2</td>
<td>641.6</td>
</tr>
<tr>
<td>Sleepwear, underwear and infant clothing</td>
<td>4.1</td>
<td>1.1</td>
<td>32.2</td>
<td>7.0</td>
<td>678.9</td>
</tr>
<tr>
<td>Clothing nec</td>
<td>21.2</td>
<td>3.1</td>
<td>90.8</td>
<td>14.6</td>
<td>327.9</td>
</tr>
<tr>
<td>Clothing</td>
<td>54.1</td>
<td>1.5</td>
<td>267.2</td>
<td>8.1</td>
<td>393.7</td>
</tr>
<tr>
<td>Footwear</td>
<td>15.6</td>
<td>2.0</td>
<td>56.4</td>
<td>9.6</td>
<td>260.6</td>
</tr>
<tr>
<td>Leather tanning and fur dressing</td>
<td>139.8</td>
<td>25.8</td>
<td>507.3</td>
<td>63.3</td>
<td>262.9</td>
</tr>
<tr>
<td>Leather and leather substitute products</td>
<td>13.8</td>
<td>21.9</td>
<td>25.5</td>
<td>29.8</td>
<td>83.9</td>
</tr>
<tr>
<td>Leather and leather products</td>
<td>153.7</td>
<td>25.4</td>
<td>532.8</td>
<td>60.0</td>
<td>246.7</td>
</tr>
<tr>
<td>Total TCF</td>
<td>1 545.8</td>
<td>nc</td>
<td>2 697.4</td>
<td>nc</td>
<td>74.5</td>
</tr>
<tr>
<td>Total TCF less wool scouring</td>
<td>395.0</td>
<td>4.1</td>
<td>1 372.0</td>
<td>15.0</td>
<td>247.5</td>
</tr>
<tr>
<td>All manufacturing</td>
<td>24 541.3</td>
<td>16.2</td>
<td>43 793.5</td>
<td>22.9</td>
<td>78.4</td>
</tr>
</tbody>
</table>

Note: Including re-exports, which are goods originally imported and then exported in an essentially unchanged condition. In 1994-95 re-exports accounted for 10 per cent of TCF exports (excluding scoured wool), although in some industries they represented significantly more.

a Exports as a proportion of industry turnover.
b An anomaly in the trade data caused by differences in classification between trade and production activities results in data for exports of the wool scouring industry exceeding sales.
nec Not elsewhere classified.
nc Not calculable.
Table 1.4: Value of exports of goods and services, 1994-95

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total exports ($m)</th>
<th>Proportion of all exports (%)</th>
<th>Average exports per exporter ($'000)</th>
<th>Exports per employee ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>1 946</td>
<td>3.4</td>
<td>12 098</td>
<td>112.4</td>
</tr>
<tr>
<td>Clothing</td>
<td>51</td>
<td>0.1</td>
<td>312</td>
<td>4.0</td>
</tr>
<tr>
<td>Footwear</td>
<td>51</td>
<td>0.1</td>
<td>1 197</td>
<td>10.5</td>
</tr>
<tr>
<td>Leather</td>
<td>662</td>
<td>1.2</td>
<td>17 182</td>
<td>210.8</td>
</tr>
<tr>
<td>TCF</td>
<td>2 709</td>
<td>4.7</td>
<td>6 702</td>
<td>71.5</td>
</tr>
<tr>
<td>Total manufacturing</td>
<td>26 084</td>
<td>45.4</td>
<td>4 766</td>
<td>54.0</td>
</tr>
<tr>
<td>Total all industries</td>
<td>57 400</td>
<td>100.0</td>
<td>3 846</td>
<td>70.4</td>
</tr>
</tbody>
</table>

Note: Some firms will record exports when they act as intermediaries for exports produced by other firms. As well, some firms which indicated that they exported, did not actually provide estimates of the value of exports. Accordingly, when calculating the value of average exports per exporter and exports per employee, exporters who did not provide export values were excluded. The values for exports in this table are drawn from the Business Longitudinal Survey results, and are not comparable with export figures used elsewhere in this report, which are based on ABS International Merchandise Trade data.

a Disaggregated data should be treated with caution due to small sample size (267 TCF firms in total).
b Based on exporting firms only.
c The aggregate will include double counting as the same exports may be counted in different industries.

Source: IC and DIST 1997 and unpublished ABS Business Longitudinal Survey data

This indicates the high degree of concentration of TCF exports. The clothing and footwear (more labour-intensive) industries lag behind the total manufacturing average in terms of average value of exports and exports per employee.

The Australian Business Chamber found that 45 per cent of 200 TCF firms surveyed were involved in export activity. Of these, 81 per cent stated that they had increased or maintained export levels over the previous twelve months; 58 per cent expect to increase exports over the next five years; and 35 per cent expect export levels to remain unchanged, other things being equal — including the maintenance of the Import Credit Scheme (see Chapter 9) (sub. 247).

While exports have been increasing, the share of the domestic TCF market accounted for by imports has increased. TCF imports grew by 45 per cent between 1988-89 and 1994-95, resulting in an increase in their share of the

---

1 Of firms surveyed, the average number of employees was 107, well above the ABS average for all TCF, biasing the results.
domestic market from 27 per cent to 39 per cent (see Table 1.5). However, not all local TCF industries have experienced a loss of domestic market share to this extent. Domestic manufacturers of made up textile products, such as towels, actually increased domestic market share. Industries which have lost only minor market share to imports include wool and cotton textile manufacturing.

1.3.1 Changing sources and destinations of trade

Significant changes to the international trading environment and reductions in domestic barrier protection have brought about shifts in the sources and destinations of Australia’s TCF trade.

In 1995-96, China accounted for more than 32 per cent of Australia’s total TCF imports — up from 15 per cent in 1988-89. Clothing and footwear account for most of this increase. New Zealand and the US are the other principal sources of TCF imports, with shares of 8 and 6 per cent, respectively. Most imports from the US are synthetic fibres and fabrics, whereas imports from New Zealand are predominantly leather and clothing. The Republic of Korea (South Korea) and Taiwan remain significant suppliers, but their importance has fallen considerably since 1988-89. The major TCF commodities imported from these countries in 1995-96 were synthetic fibres and fabrics. Growing sources of TCF imports include Fiji, Indonesia and India.

The great bulk of Australia’s TCF exports are early stage products such as wool, cotton and leather. In 1988-89, Japan accounted for 32 per cent of Australia’s TCF exports, but by 1995-96 this had fallen to 10 per cent. Italy has emerged as the largest market for total TCF exports at around 14 per cent. Other major destinations include New Zealand, China and South Korea.

The fall in TCF exports to Japan (in absolute and proportional terms) has been offset by increases in exports to other parts of the world, most notably Italy and New Zealand. 28 per cent of the increase in TCF exports over the period is attributable to Italy and 22 per cent to New Zealand. Australian TCF exports to New Zealand grew three times faster than total TCF exports over the eight years to 1995-96, reflecting the opening of the New Zealand market under the Closer Economic Relations agreement (see Chapter 7). Other major contributors to export growth have been Fiji (much of which is re-exported to Australia under SPARTECA, see Chapter 7), Malaysia, South Korea and the United States.
Table 1.5: Imports, by industry, (current dollars)

<table>
<thead>
<tr>
<th>Industry</th>
<th>1988-89 Imports ($m)</th>
<th>Import share a (%)</th>
<th>1994-95 Imports ($m)</th>
<th>Import share a (%)</th>
<th>Import growth, 1988-89 to 1994-95 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wool scouring</td>
<td>71.0</td>
<td>nc b</td>
<td>64.9</td>
<td>nc b</td>
<td>-8.6</td>
</tr>
<tr>
<td>Synthetic fibre textiles</td>
<td>875.9</td>
<td>52.6</td>
<td>1 152.1</td>
<td>62.2</td>
<td>31.5</td>
</tr>
<tr>
<td>Cotton textiles</td>
<td>563.0</td>
<td>63.1</td>
<td>603.4</td>
<td>67.2</td>
<td>7.2</td>
</tr>
<tr>
<td>Wool textiles</td>
<td>112.7</td>
<td>21.9</td>
<td>111.0</td>
<td>32.1</td>
<td>-1.5</td>
</tr>
<tr>
<td>Textile finishing</td>
<td>11.7</td>
<td>4.2</td>
<td>17.3</td>
<td>5.6</td>
<td>47.8</td>
</tr>
<tr>
<td><strong>Total Textile fibres, yarns and woven fabrics</strong></td>
<td><strong>1 634.3</strong></td>
<td>nc b</td>
<td><strong>1 948.8</strong></td>
<td>nc b</td>
<td><strong>19.2</strong></td>
</tr>
<tr>
<td>Made-up textile products</td>
<td>67.9</td>
<td>13.9</td>
<td>78.1</td>
<td>10.8</td>
<td>15.0</td>
</tr>
<tr>
<td>Textile floor coverings</td>
<td>141.2</td>
<td>14.8</td>
<td>167.8</td>
<td>24.5</td>
<td>18.9</td>
</tr>
<tr>
<td>Rope, cordage and twine</td>
<td>26.8</td>
<td>29.8</td>
<td>38.3</td>
<td>31.9</td>
<td>42.8</td>
</tr>
<tr>
<td>Textile products nec</td>
<td>212.7</td>
<td>41.3</td>
<td>259.6</td>
<td>57.5</td>
<td>22.1</td>
</tr>
<tr>
<td><strong>Textile products</strong></td>
<td><strong>448.6</strong></td>
<td><strong>21.9</strong></td>
<td><strong>543.9</strong></td>
<td><strong>27.5</strong></td>
<td><strong>21.2</strong></td>
</tr>
<tr>
<td>Hosiery</td>
<td>12.6</td>
<td>3.9</td>
<td>34.4</td>
<td>12.0</td>
<td>173.5</td>
</tr>
<tr>
<td>Cardigans and pullovers</td>
<td>140.0</td>
<td>40.5</td>
<td>203.6</td>
<td>65.8</td>
<td>45.4</td>
</tr>
<tr>
<td>Knitting mill products nec</td>
<td>76.2</td>
<td>11.3</td>
<td>135.3</td>
<td>19.9</td>
<td>77.5</td>
</tr>
<tr>
<td><strong>Knitting mills</strong></td>
<td><strong>228.8</strong></td>
<td><strong>17.0</strong></td>
<td><strong>373.3</strong></td>
<td><strong>29.2</strong></td>
<td><strong>63.1</strong></td>
</tr>
<tr>
<td>Men’s and boys’ wear</td>
<td>178.1</td>
<td>12.6</td>
<td>469.9</td>
<td>37.5</td>
<td>163.8</td>
</tr>
<tr>
<td>Women’s and girls’ wear</td>
<td>148.2</td>
<td>10.8</td>
<td>287.9</td>
<td>18.1</td>
<td>94.3</td>
</tr>
<tr>
<td>Sleepwear, underwear and infant clothing</td>
<td>72.3</td>
<td>15.9</td>
<td>249.2</td>
<td>36.8</td>
<td>244.6</td>
</tr>
<tr>
<td>Clothing nec</td>
<td>168.4</td>
<td>20.2</td>
<td>254.7</td>
<td>32.4</td>
<td>51.3</td>
</tr>
<tr>
<td><strong>Clothing</strong></td>
<td><strong>567.0</strong></td>
<td><strong>13.9</strong></td>
<td><strong>1 261.6</strong></td>
<td><strong>29.3</strong></td>
<td><strong>122.5</strong></td>
</tr>
<tr>
<td>Footwear</td>
<td>326.6</td>
<td>30.0</td>
<td>546.9</td>
<td>50.9</td>
<td>67.4</td>
</tr>
<tr>
<td>Leather tanning and fur dressing</td>
<td>141.1</td>
<td>26.0</td>
<td>152.6</td>
<td>34.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Leather and leather substitute products</td>
<td>179.7</td>
<td>78.4</td>
<td>282.5</td>
<td>82.5</td>
<td>57.2</td>
</tr>
<tr>
<td><strong>Leather and leather products</strong></td>
<td><strong>320.9</strong></td>
<td><strong>41.6</strong></td>
<td><strong>435.2</strong></td>
<td><strong>55.1</strong></td>
<td><strong>35.6</strong></td>
</tr>
<tr>
<td><strong>Total TCF</strong></td>
<td><strong>3 526.2</strong></td>
<td>nc b</td>
<td><strong>5 109.6</strong></td>
<td>nc b</td>
<td><strong>44.9</strong></td>
</tr>
<tr>
<td><strong>Total TCF less wool scouring</strong></td>
<td><strong>3 455.2</strong></td>
<td><strong>27.3</strong></td>
<td><strong>5 044.7</strong></td>
<td><strong>39.3</strong></td>
<td><strong>46.0</strong></td>
</tr>
<tr>
<td><strong>All manufacturing</strong></td>
<td><strong>51 824.7</strong></td>
<td><strong>28.9</strong></td>
<td><strong>70 146.1</strong></td>
<td><strong>32.2</strong></td>
<td><strong>35.4</strong></td>
</tr>
</tbody>
</table>

a Imports as a proportion of domestic sales (turnover plus imports less exports).
b An anomaly in the trade data caused by differences in classification between trade and production activities results in data for exports of the wool scouring industry exceeding sales.
nc not elsewhere classified.
nc Not calculable.

Source: Estimates based on ABS 1997e and unpublished ABS Manufacturing Industry Survey data
1.4 Taking advantage of Australia’s strengths

An important factor in becoming ‘sustainable, prosperous and internationally competitive’ is to capitalise on areas in which Australia has natural advantages. For example, abundant land provides Australia with a comparative advantage in land-extensive activities. In contrast, with relatively scarce and expensive labour, Australian industry is at a disadvantage in labour-intensive activities compared with some less developed countries. Yet it has been these labour-intensive industries which have attracted the highest rates of protection, and where Australian production has been concentrated.

While terms such as ‘land-based’, ‘capital-intensive’ or ‘labour-intensive’ may be useful as broad descriptions, the actual situation is more complex and the productive opportunities that arise are more varied. Capital, technology and entrepreneurship also must be considered.

1.4.1 Natural advantages

Australia’s abundance of relatively cheap land has been the foundation of the wool, cotton and livestock industries. In turn, these industries provide a source of raw materials for Australia’s TCF industries in domestic and export markets. The land also provides avenues for efficient effluent treatment for industrial processes such as wool scouring, textile dyeing and finishing, and leather tanning. In addition, abundant natural resources contribute to relatively low power and fuel costs in Australia. Paradoxically, the relatively high costs of extensive water use have stimulated the development of land-extensive water recycling technologies which now give Australia a competitive edge in low pollution production techniques.

While Australia is the world’s largest producer of apparel wool and a significant producer of high grade cotton and animal hides, the bulk of this production is exported after only rudimentary processing. Australia is often seen as failing to take full advantage of this productive base, often because of poor linkages between producers and processors.

For example, the bulk of Australia’s wool is exported in its ‘greasy’ or unprocessed state, although in recent years there has been rapid growth in early stage processing of wool in Australia, partly encouraged by government assistance (see Chapter 8). In 1996, 37 per cent of the Australian wool clip was processed to an early stage in Australia (up from 23 per cent ten years earlier), but only 13 per cent of the clip was processed to the tops stage (Australian Wool Processors’ Council, sub. 79, p. 1).
Similarly, the bulk of Australia’s cotton crop is exported in raw form. Less than ten per cent of the cotton crop is subject to further processing in Australia (AACSS 1997, p. 2). This low level of value added is in marked contrast to other major cotton producing countries, which spin between 50 per cent (US) and 120 per cent (Turkey) of the raw cotton they produce.

The Australian livestock industry produces a large supply of hides and skins, the raw material for the leather processing industry. The Australian leather industry has grown substantially in recent years and the proportion of hides and skins to which value is added prior to export has increased from 20 per cent in 1989-90 to 45 per cent in 1995-96.²

Participants raised several issues which related to poor linkages between producers and processors. Many of the problems identified appeared to flow from poor institutional arrangements which impeded the flow of information among the industries.

There has been particular concern that wool growers are not responding to customers’ requirements for different wool types, additional measurement or changes in the way the wool is presented. The Wool Industry Taskforce found that the wool industry is characterised by poor communication between sectors, impeding cooperation and coordination (Wool Industry Taskforce 1996, p. 65).

The lack of linkages appears to have impeded the development of wool textiles in this country — of all the textile sectors, wool is in the weakest state with many woollen mills having closed and little investment in new technology or in innovation in equipment, products or processes (see Section 1.4.4). The weakness of the wool textile sector is reflected in low use of wool textiles in the Australian clothing industry. This suggests that Australian TCF industries have not made the most of their opportunities to develop distinctively Australian products. It also means that the wool growing and handling industries are missing opportunities to get close to their customers to develop better products and develop more efficient wool handling and processing methods.

Some of these problems may arise because of the large number of relatively small growers in the wool industry. The Wool Processing Task Force identified more than 60 000 producers above a threshold size of gross value of production from sheep of $20 000 per year. In 1991, the average production for each of these producers was only 60 bales of wool (Wool Processing Task Force 1993, p. 8).

² Exports of Customs Tariff groupings 4104 to 4107 (leather other than chamois and patent leather) as a proportion of groupings 4101 to 4107 (hides, skins and leather other than chamois and patent leather) (ABS 1997e).
The large number of small-scale woolgrowers contrasts with the small number of processors and merchants operating in the early processing stages, and has been a major reason for the continuing reliance on an auction system. Some 85 per cent of the wool passing between the growing stage and the next stage is sold through auction, although producers also can sell direct to processors or exporters. The degree of standardisation imposed by the auction system may not inform growers adequately about the premium which buyers are willing to pay for wool with specific characteristics.

Various attempts are being made to address these problems. Some processors, such as Godfrey Hirst and Waverley Woollen Mills, are dealing directly with growers. Some growers are grouping together to form organisations such as Australian Wool Enhancers (trading as Fibre Direct). However, they have reported difficulties in changing entrenched attitudes among both wool growers and purchasers.

The leather processing industry has been tackling information gaps in the livestock industry through the Hide Improvement Program (see Box 1.1).

**Box 1.1: The Hide Improvement Program**

The leather tanning industry is placing increasing emphasis upon creating and maintaining a reputation for quality leather. Quality leather depends upon access to a supply of quality hides. This has implications for tanners and for management practices and quality control in the livestock and grazing industries. Effective animal husbandry is necessary for the production of high quality hides, as is care of the hide throughout the processing chain.

However, the lack of adequate price signals to growers about the value of the hide has meant that growers have little incentive to ensure good quality hides. Tanners and farmers are separated by meat processors, who have been interested more in the meat value of the carcase than the value of the hide.

The TCF Development Authority, in conjunction with the Meat Research Corporation, the Federated Tanners’ Association and the Australian Meat and Livestock Corporation, implemented a Hide Improvement Program which aims to provide a financial incentive to the livestock industry to improve hide quality by linking the price of hides to their quality. By 1995-96, four tanneries had implemented hide improvement strategies aimed at demonstrating the benefits of more effective hide identification and quality assessment methods. Eight meat processors had agreed to participate in hide feedback trials.

*Source:* Meat Research Corporation 1996
More work needs to be done to bridge information gaps and improve the linkages between the Australian TCF industries, primary producers and retailers. Such a strategy is likely to play a major role in building those parts of the industries which will remain viable in the future.

### 1.4.2 Labour costs and productivity

In labour-intensive industries, wage differences from one country to another are likely to be one of the main determinants of competitiveness, particularly for mass-produced articles. For example, clothing industry labour costs may account for up to 80 per cent of the value of the finished product (ILO 1995b).

The large differences in clothing industry wage costs between industrialised countries and developing countries are illustrated in Table 1.6. These figures should be regarded as indicative only — wage costs are subject to rapid change and may vary widely within a country, the method of collecting social contributions may vary between countries and relative wage costs may be

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($US)</td>
<td>($US)</td>
</tr>
<tr>
<td>Italy</td>
<td>12.50</td>
<td>12.31</td>
</tr>
<tr>
<td>Japan</td>
<td>6.34</td>
<td>10.64</td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td><strong>8.79</strong></td>
<td><strong>8.67</strong></td>
</tr>
<tr>
<td>United States</td>
<td>6.56</td>
<td>8.13</td>
</tr>
<tr>
<td>Taiwan</td>
<td>3.41</td>
<td>4.61</td>
</tr>
<tr>
<td>South Korea</td>
<td>2.46</td>
<td>2.71</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.56</td>
<td>0.77</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.63</td>
<td>0.71</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.46</td>
<td>0.53</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.16</td>
<td>0.28</td>
</tr>
<tr>
<td>India</td>
<td>0.33</td>
<td>0.27</td>
</tr>
<tr>
<td>Vietnam</td>
<td>na</td>
<td>0.26</td>
</tr>
<tr>
<td>China</td>
<td>0.26</td>
<td>0.25</td>
</tr>
</tbody>
</table>

*Note:* Hourly wage costs are wages plus social contributions.

*Source:* Werner International 1994 in ILO 1995
influenced by exchange rate movements. With these limitations in mind, it can be noted that, while Australia’s average labour costs are below those of many OECD countries, Australian manufacturers face significant disadvantages on wages and labour on-costs compared with non-OECD countries (even after allowance is made for higher labour productivity in Australia). In 1993, the cost of one hour of work in the clothing industry in Australia was the equivalent of 35 hours of work in China.

Many participants argued that relative labour costs meant that they could not compete with imports from developing countries. Although participants’ estimates of relative wage costs tend to differ from those in the table above, the same general trend emerges. Diamond Cut International stated:

At present with the average cost of a minute of work in Australia around 24 cents and in China just one cent no amount of duty, and no substantial increase in local productivity can overcome this disparity from a low wage source. (sub. 19, p. 2)

Aboud Apparel argued that Australian clothing manufacturers could not compete with imported shirts if price were the only criterion (sub. 40, p. 4). Table 1.7 presents Aboud Apparel’s simplified break-down of the cost structure for an imported Chinese business shirt. (It should be noted that this breakdown assumes relatively low margins and makes no allowance for costs such as insurance and freight.)

Table 1.7: Estimated labour cost of $5 business shirt from China

<table>
<thead>
<tr>
<th>Component</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale cost of Chinese business shirt (in Australia)</td>
<td>5.00</td>
</tr>
<tr>
<td>Assume 10 per cent wholesaler/importer margin</td>
<td>0.50</td>
</tr>
<tr>
<td>Landed cost after duty</td>
<td>4.50</td>
</tr>
<tr>
<td>Duty at 37 per cent</td>
<td>1.21</td>
</tr>
<tr>
<td>Landed cost pre-duty</td>
<td>3.29</td>
</tr>
<tr>
<td>Less manufacturer’s profit on the garment at 10 per cent</td>
<td>0.30</td>
</tr>
<tr>
<td>Less fabric (1.7 metres at 80 cents per metre)</td>
<td>1.36</td>
</tr>
<tr>
<td>Less cost of trimmings</td>
<td>0.45</td>
</tr>
<tr>
<td><strong>Equals Chinese labour cost</strong></td>
<td><strong>1.17</strong></td>
</tr>
</tbody>
</table>

**Compared with Australian labour cost (excluding on-costs) for long sleeve business shirt (total manufacturing cost $7.97)**

4.17

* Total manufacturing costs include labour on-costs, materials, and overheads.

**Source:** Aboud Apparel (sub. 40, pp. 2 and 4).
Mark One Apparel compared labour on-costs in Australia and Fiji. While its Australian employees averaged $2400 in holiday pay, its Fijian employees averaged $124. Workers’ compensation cost $1200 per employee in Australia, and $8 per employee in Fiji. In addition, Australia imposed a 30 per cent penalty on shift work, payroll taxes and redundancy payouts — none of which applied in Fiji. Mark One Apparel noted that Fiji had relatively high wages and on-costs compared with South East Asian countries (sub. 5, p. 3).

Given such fundamental disadvantages in labour costs, it is clear that Australian production cannot be viable in activities in which labour costs are the key criterion for competitiveness. This basic disadvantage explains much of the decline in clothing and footwear manufacturing activity and employment that has occurred already in Australia and in much of the developed world. Where the effects of such high wage rate differentials cannot be alleviated through higher productivity (discussed below), even very high tariff levels would not offer sufficient protection to eliminate these disadvantages, and yet would create significant costs in the broader economy. In order to survive, Australian firms in labour-intensive activities must offer other advantages to their customers besides price, such as superior service, quality or brand names. These and other business strategies are discussed in Section 1.6.

**Labour productivity**

Higher labour productivity provides the basis for paying higher wages to Australian workers while maintaining international competitiveness. The TFIA submitted that:

> Australia cannot compete at the commodity end against the low-wage cost sources of TCF competition and the best way to accommodate this is to improve overall efficiencies and increase productivity levels, both in terms of capital productivity and more especially labour productivity (given that TCF is a labour-intensive sector). (sub. 66, p. 29)

As protection has been reduced, there have been significant improvements in labour productivity.³ In the past, high protection levels eroded the incentive to raise productivity. Poor productivity is in part a product of the low levels of investment and outdated equipment with which labour is required to work (see below). Exclusive Fleece stated:

---
³ In this report, labour productivity estimates are calculated using employment figures derived from ABS Manufacturing Industry Survey data. This provides greater compatibility with gross product data. Employment data presented elsewhere in this report are from the ABS Labour Force Survey. It should be noted that if ABS Labour Force Survey employment data were used, there would be smaller improvements in labour productivity. For further details see Appendix C.
Many companies are undercapitalised as a result of many decades of non investment because high tariffs made this unnecessary. ... The tariffs have in the past sheltered and protected and have been a disincentive to modernise an unbelievably old fashioned and inefficient industry. (sub. 171, pp. 1–2)

Just over half of the respondents to the Australian Business Chamber survey indicated that they had increased productivity over the last ten years (sub. 247, p. 16). Between 1984-85 and 1994-95, TCF gross product per hour of labour input grew by 26 per cent (Table 1.8). However, growth has lagged behind that for total manufacturing. This may be due partly to labour hoarding by TCF firms which are experiencing declines in output, but hope to increase production in the future, or cannot afford the cost of redundancies (see Chapter 3).

Improvements in labour productivity may reflect increased contracting-out of activities or the substitution of capital for labour, or changes in the firm and product component of each category, rather than better use or management of labour per se. In the case of the clothing industry, in particular, if homeworking has grown over the period, growth in labour productivity will be overstated, as this part of the workforce is not included in official employment data (whereas the addition to output from homeworking is included in official production data). There are major difficulties in using partial measures such as labour productivity, which may provide an incomplete picture compared with measures which take account of all inputs to production.

Table 1.8: Gross product per hour of labour input, ($1994-95)

<table>
<thead>
<tr>
<th>ANZSIC industry</th>
<th>1984-85</th>
<th>1988-89</th>
<th>1992-93</th>
<th>1994-95</th>
<th>Change(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($)</td>
<td>($)</td>
<td>($)</td>
<td>($)</td>
<td>(%)</td>
</tr>
<tr>
<td>Textile fibres, yarns and fabrics</td>
<td>16.6</td>
<td>18.6</td>
<td>24.3</td>
<td>28.1</td>
<td>69.4</td>
</tr>
<tr>
<td>Textile products</td>
<td>24.2</td>
<td>24.2</td>
<td>22.8</td>
<td>20.6</td>
<td>-15.2</td>
</tr>
<tr>
<td>Knitting mills</td>
<td>18.9</td>
<td>20.7</td>
<td>22.6</td>
<td>22.3</td>
<td>18.3</td>
</tr>
<tr>
<td>Clothing</td>
<td>14.5</td>
<td>16.7</td>
<td>19.1</td>
<td>20.1</td>
<td>38.1</td>
</tr>
<tr>
<td>Footwear</td>
<td>15.6</td>
<td>15.5</td>
<td>17.5</td>
<td>20.4</td>
<td>30.4</td>
</tr>
<tr>
<td>Leather and leather products</td>
<td>16.6</td>
<td>19.0</td>
<td>15.2</td>
<td>14.8</td>
<td>-11.0</td>
</tr>
<tr>
<td>All TCF</td>
<td>17.2</td>
<td>19.3</td>
<td>22.3</td>
<td>21.8</td>
<td>26.4</td>
</tr>
<tr>
<td>All manufacturing</td>
<td>26.6</td>
<td>29.1</td>
<td>33.3</td>
<td>35.3</td>
<td>32.7</td>
</tr>
</tbody>
</table>

Note: Data shown is gross product at factor cost. This represents the value added by the factors of production.

\(^a\) Per cent change 1984-85 to 1994-95.

Source: Estimates based on unpublished ABS Manufacturing Industry Survey data
As shown in Figure 1.5, the labour productivity experience of individual TCF industries has varied over the period. The fibre, yarn and fabric, and clothing industries have experienced the greatest growth in gross product per hour of

**Figure 1.5: TCF labour productivity, by industry, 1984-85 to 1994-95, ($1994-95)**

Note: Gross product at factor cost per hour of labour input.

Source: Estimates based on unpublished ABS Manufacturing Industry Survey data
labour input (above the manufacturing average). Increases in labour productivity in the clothing industry may reflect increasing use of homeworkers, as well as improvements in labour practices.

Labour productivity in the footwear industry lagged the rest of TCF until 1989-90, but has grown since, and was approaching the TCF average in 1994-95.

The leather manufacturing industry appears to have experienced a decline in labour productivity. This may run counter to expectations, given the industry’s rapid growth in investment and turnover, but may be explained by several factors. First, labour makes up a relatively small proportion of the cost of leather production (around 12 per cent) while raw materials account for around 50 per cent (Federated Tanners’ Association of Australia, sub. 92, annex. 3). Manufacturers do not appear to have been able to pass on increases in the price of raw materials, which have had a major effect on producers’ margins and have reduced the value of gross output per worker. Second, there may have been compositional changes to output which reduced value added.

Results from a survey of the seven largest tanning and wet blueing operations in Australia (representing around 80 per cent of the industry’s output) indicate that labour productivity grew by 17 per cent between 1988-89 and 1994-95, but has since fallen significantly. This appears to be due to labour hoarding as employment has increased despite recent falls in sales and value added (Australian Association of Leather Industries, correspondence 5 September 1997).

Textile products also experienced a decrease in labour productivity. This is mainly due to a sharp fall in labour productivity in the carpet-making sector, where the value of gross product fell more sharply than labour input. As in the case of leather, labour is a relatively small component of total costs in carpet manufacturing and movements in the prices of other inputs may affect the value of gross product and therefore labour productivity measures.

In most OECD countries, labour productivity in the TCF industries is generally lower than that for total manufacturing (see Table 1.9). Relative to labour productivity in manufacturing as a whole, labour productivity in TCF has decreased considerably in the United Kingdom, the US and Australia. Australia’s TCF labour productivity as a proportion of manufacturing labour productivity in 1994-95 remained well below that of other OECD countries.

Labour productivity is measured as a relationship between labour input and output. Real output is generally expressed in market prices. However, TCF market prices have been distorted by tariffs and, in the past, quotas. These
distortions mean that comparisons between the past and the present will underestimate the extent of labour productivity improvements, as past labour productivity estimates will be exaggerated by artificially high domestic prices. When productivity is measured with a view to drawing inferences about international competitiveness, it is important to measure output at undistorted, or unassisted prices. When industry gross product is revalued from domestic to unassisted prices (using the Commission’s estimates of effective rates of assistance, see Chapter 6) a different productivity picture is obtained. The increase in productivity at unassisted border prices has been greater than at domestic prices.

Table 1.9: TCF labour productivity, selected OECD countries

<table>
<thead>
<tr>
<th>Country</th>
<th>1980</th>
<th>1994-95</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manufacturing = 100</td>
<td>Manufacturing = 100</td>
</tr>
<tr>
<td>Canada</td>
<td>84</td>
<td>83</td>
</tr>
<tr>
<td>Italy</td>
<td>71</td>
<td>72</td>
</tr>
<tr>
<td>France</td>
<td>74</td>
<td>72</td>
</tr>
<tr>
<td>Germany</td>
<td>73</td>
<td>62</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>91</td>
<td>60</td>
</tr>
<tr>
<td>Japan</td>
<td>55</td>
<td>59</td>
</tr>
<tr>
<td>United States</td>
<td>78</td>
<td>59</td>
</tr>
<tr>
<td>Australia</td>
<td>67</td>
<td>56</td>
</tr>
<tr>
<td>Portugal</td>
<td>60</td>
<td>52</td>
</tr>
</tbody>
</table>

Note: Current price value added per employee.
Source: OECD 1997

There is considerable scope for Australian TCF industries to improve their competitive position by raising productivity levels. Many individual firms have increased their labour productivity through improved production techniques and workplace practices, just-in-time procedures and investment in technology. With the exception of footwear, labour productivity levels of the top Australian TCF companies are equal to world’s best practice, according to the Best Practice 2000 Benchmarking Study (Arthur Andersen 1997). However, the study also finds that there is a significant gap between the productivity of the best Australian firms and the median.

---

4 Results from the study do not claim to be representative of the industries as a whole.
Victorian Hide and Skin Producers (VHSP) said it had increased productivity markedly by introducing initiatives such as team-based production systems, new technology, and a Continuous Improvement Program. This resulted in a rise in output per employee of wet blue hides of more than 75 per cent between 1992-93 and 1995-96 (sub. 29, p. 16). Improvements were not confined to larger players — Enoch Taylor and Co., a relatively small footwear manufacturer, has achieved gains in sales value per employee of around 90 per cent since 1988 (sub. 90, p. 1). Similarly, Classweave Industries increased sales per employee by nearly 250 per cent between 1989 and 1995 (sub. 166, p. 1).

Aboud Apparel stated that it had achieved an international standard of labour productivity:

In the same twelve month period last year each of our machinists produced 97 shirts per 38 hour week. By any benchmark that you would like to use from anywhere in the world you will find that this is very high productivity per machinist. (sub. 40 p. 4)

Most respondents to the Australian Chamber of Manufactures survey of 156 TCF firms stated that the best means of lifting productivity was through increased sales, including exports, improved labour flexibility and better management techniques. Other measures include better staff training and more R&D (sub. 87, p. 16).

Historically, Australian TCF industries, in aggregate, have suffered from low labour productivity, partly because of low levels of investment and slow take-up of new technology. Much of the increase in productivity recorded in the TCF industries in the last decade has been due to greater use of capital and modern production techniques and the withdrawal from much labour-intensive production. Nevertheless, there are still many old plants in operation in Australian TCF industries. This suggests that there are likely to be many areas where the opportunities for better use of capital and for further rationalisation have not yet been realised.

Another important influence on productivity is the existence of a skilled labour force which is familiar with modern production systems. The training infrastructure for the TCF industries has been poor and participants have noted several ‘skill gaps’ in the TCF labour force. The implications of this have become apparent as import competition from developing countries has intensified. For many years, parts of the industry which are low-skilled and

---

5 The 156 firms surveyed account for over 20 per cent of TCF activity, biasing survey results away from small businesses which account for most TCF firms (see Appendix B).
labour-intensive have been moving offshore. However, there are significant parts of TCF which require greater skills or which draw on locational advantages. It seems likely that the potential of a more skilled Australian labour force has not yet been fully realised. The use of labour in Australian TCF industries is considered in detail in Chapter 3.

1.4.3 Investment

Capital and technology can complement abundant natural resources to provide a high level of production per person — the foundation of a high standard of living. The level of investment is a critical determinant of current and future productive capacity and the overall performance of TCF manufacturing in Australia. The pattern of investment also reveals investors’ views about the long-term profitability of these industries.

Trends in TCF investment between 1985-86 and 1996-97

For TCF as a whole, new capital investment expenditure has fluctuated broadly in line with that of total manufacturing over the decade to 1996-97, but has been somewhat more volatile (see Figure 1.6). The growth in both TCF and total manufacturing investment expenditure prior to 1988-89 and the subsequent decline in the early 1990s generally matched the trend of the business cycle. This indicates that general macroeconomic factors are a significant influence on investment patterns.

Figure 1.6: Private new capital investment expenditure, 1985-86 to 1996-97, ($1989-90)

Source: Unpublished ABS Capital Expenditure Survey data
Investment expenditure in the textiles and leather industries has increased since the recession, as has investment for manufacturing as a whole. Although investment levels remain below their previous peak, this pattern appears at odds with the views expressed by many participants about the bleak outlook for these industries up to 2000 and beyond.

The investment pattern for individual TCF industries has differed markedly. Over the decade to 1996-97, investment in the textiles and leather industries was higher than in the clothing and footwear industries, reflecting the more capital-intensive nature of these industries. Also, textiles and leather investment followed more closely the pattern of investment for manufacturing as a whole, although it was more variable. The proportion of total TCF investment accounted for by the relatively more capital-intensive textiles and leather industries increased from about 58 per cent in 1985-86 to more than 73 per cent in 1996-97, reflecting the increasing share of total TCF manufacturing and employment accounted for by these industries. In contrast, investment in the clothing and footwear industries was flat over the first half of the 1990s.

Investment intensity, measured by expenditure on investment as a share of industry product, has risen significantly for the textiles and leather industries in recent years. In 1994-95 by contrast, investment intensity for clothing and footwear was quite low after declining slightly over the past decade (see Figure 1.7).

![Figure 1.7: Investment expenditure as a proportion of gross industry product, 1985-86 to 1994-95](image)

*Source:* Commission estimates based on unpublished ABS data
International comparisons

The changes in the Australian TCF industries over the last decade are, in part, a reflection of the changes in the increasingly global world markets and the consequent general shift of labour-intensive, relatively low-skill manufacturing (such as many parts of clothing manufacturing) away from developed economies (see Chapter 2).

These changes in the location of production have been accompanied by a general decline in the share of TCF industries in total investment throughout the OECD (see Table 1.10).

Table 1.10: OECD TCF Investment intensity

<table>
<thead>
<tr>
<th></th>
<th>Share of mfg invest.</th>
<th>Invest. per unit of outputa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>5.9, 4.0b</td>
<td>4.0, 3.5b</td>
</tr>
<tr>
<td>New Zealand</td>
<td>9.6, 3.7</td>
<td>5.1, 1.7</td>
</tr>
<tr>
<td>United States</td>
<td>5.0, 2.6</td>
<td>2.3, 2.4</td>
</tr>
<tr>
<td>Japan</td>
<td>5.4, 2.7</td>
<td>5.6, 6.0</td>
</tr>
<tr>
<td>Italy</td>
<td>6.9, 10.1</td>
<td>2.7, 3.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.9, 2.5</td>
<td>3.0, 2.1</td>
</tr>
<tr>
<td>Canada</td>
<td>4.0, 2.3</td>
<td>3.4, 3.2</td>
</tr>
<tr>
<td>France</td>
<td>6.4, 3.9</td>
<td>4.8, 4.1</td>
</tr>
</tbody>
</table>

a The ratio of gross fixed capital formation to the value of production (both in current prices).
b 1988 data are the latest comparable data available.

Source: OECD 1995

Australian TCF industries’ investment intensity (measured by investment per unit of output and investment per employee) was around the mid-point for all OECD countries in 1988. All of these countries have increased their use of capital relative to labour over the past 20 years, seeking higher productivity to match competition from lower wage countries. Nonetheless, TCF investment in most countries has declined relative to total manufacturing investment and output. The trends in TCF investment generally reflect the relative structural decline of these industries (viewed as a whole) in OECD countries identified in Chapter 2. The decline in investment intensity in Australia was less marked than that in the other OECD countries shown.
**Company profits**

There is a close relationship between profits and investment. Higher profitability usually is a sign of improved performance and increases the capacity to invest from retained or borrowed funds, which in turn can increase future profitability. Melbourne Textile Knitting Company stressed the significance of this link:

> The spinners, weavers, dyers and knitters in Asia all operate businesses that make very healthy profits. This allows them to continually update and modernise their equipment. (sub. 22, p. 3)

The similar trend in profit levels and investment bears out this close relationship. Over the ten year period to 1995-96, aggregate TCF profit levels increased in the late 1980s, fell during the recession in the early 1990s and have increased since. Reflecting volatility in the textiles sector, there was a sharp decline in 1995-96 (See Figure 1.8). TCF company profits in aggregate have followed the same pattern as that of manufacturing as a whole, although with greater volatility. This suggests that general macroeconomic factors are an important influence in determining profit levels for TCF industries in aggregate.

![Figure 1.8: Company profits before tax, (index, 1985-86=100)](chart.png)

As is the case with investment, profit levels have varied between the TCF industries. The clothing industry has exhibited low and steady profit results over the 1990s, while textiles and leather industries’ profits generally have been higher, although more volatile. In fact, the trend in textile and leather
industries’ profits have been considerably stronger than that of manufacturing industry in general. Many participants identified the difficult trading conditions experienced by major retailers in recent periods as a significant factor influencing the downturn in profits since 1994-95. To the extent that a close causal relationship between profits and investment exists, some downward pressure on investment is likely. However, some firms have not followed this trend.

The top Australian companies are at, or are close to, world’s best practice in terms of return on assets and return on sales. The top quartile of Australian TCF firms participating in the Best Practice 2000 benchmarking exercise earn a return on sales of between 9 and 28 per cent. For example, Gazal Corporation announced a 55 per cent increase in its net profit in 1996-97 (*The Australian Financial Review*, 5 September 1997, p. 52). However, some companies in the bottom quartile are in a loss position. Some Australian companies have also failed to achieve return on assets which would be considered the minimum necessary for long-term survival (less than 5 per cent) (Arthur Andersen 1997).

In 1996-97, total profit (pre-tax, net of interest and depreciation) of the TCF industries was reported to be $495 million, significantly lower than the $795 million reported two years previously (unpublished ABS *Company Profits Survey* data). Many participants commented on the low profitability of many areas of TCF manufacturing. For example, the Carpet Institute of Australia submitted that “Profitability across the carpet industry has been weak throughout the 1990s” (sub. 120, p. 5-5).

As tariffs are reduced, margins will be further squeezed and the profitability of many TCF firms is unlikely to improve. Victoria’s Golden Regional Development Organisation claimed that further tariff reductions will make TCF production unprofitable:

> ... large companies through to small specialist textile manufacturers, all express concern about diminishing profit margins. We contend that to introduce a program of phased tariff reductions to five per cent between 1 July 2001 and 30 June 2008, without a compensating reduction in costs related to micro economic reform, would drive the TCF sector in the Golden Region into unprofitability. (sub. 223, p. 1)

Continued poor profitability will have an impact on the future investment of the TCF industries. The South Australian Government stated that:

> To survive and be competitive in the future, the TCF industry in particular needs to undertake significant capital investment in the pursuit of niche markets and further productivity improvements. However, it is likely that few companies will have the internal resources required to undertake this investment in a low tariff, low profit environment. (sub. 232, p. 4)
1.4.4 Investing in technology

Technology, research and development (R&D) and innovation are important sources of competitive advantage. Many TCF firms which have been successful in adapting to the changing environment have adopted innovative strategies such as product and process development, quick response and the use of new technology (see Section 1.6). The Victorian Government stated that:

Technology, R&D and innovation are key drivers of competitive advantage. Acquisition of new technologies, undertaking appropriate R&D and a skilled workforce are core capabilities underpinning the future viability of the TCF industries. (sub. 265, p. 11)

There are indications that TCF companies, particularly in capital-intensive activities, are placing greater emphasis on investing in modern technology as exposure to international competition has increased. In common with other parts of the economy, greater emphasis on upgrading technology and investing in R&D is likely to be a key strategy in enhancing the industries’ competitiveness beyond 2000.

In recent times, an increasing share of TCF investment has been allocated to purchases of equipment, plant and machinery relative to spending on land and buildings. Over the decade to 1996-97, this category of investment expenditure increased on average by about 23 per cent. This underlines the growing emphasis on investment aimed at modernising production facilities relative to investment to expand capacity.

Participants argued that some firms in the capital-intensive segments of TCF, including wool scouring, spinning, weaving, knitting, carpet production and tanning, now are as technically efficient as firms elsewhere in the world. For example, the Carpet Institute of Australia said that:

The level of technology employed by the leading tufted and woven carpet manufacturers is directly comparable to the technology employed by leading overseas carpet manufacturing firms. The Australian industry has strong technology links with overseas manufacturers. (sub. 120, p. 5.6)

Changes in technology in the clothing industry have included specialised labour-saving equipment, such as programmable sewing machines, computer-aided design (CAD) and computer numerically controlled (CNC) cutting systems, electronic data interchange (EDI) and modern warehousing and distribution systems. This has resulted in productivity gains and reduced lead times in responding to market demands.
However, these innovations in the apparel industry appear to have had less impact than innovations in the textiles industry. As the Textiles Institute (Southern Australia Section) indicated:

... clothing manufacture has also benefited from new systems of design, layplanning, marking and cutting, advances in automation of garment manufacture, [and] whilst significant for some product areas, [these] have had little impact on costs for most of the garment and fashion market. (sub. 119, p. 4)

In the area of cotton textiles, Rocklea Spinning Mills stated that:

Close to $40 million has been spent over the last six years on new plant and equipment. It [Rocklea] is now of world’s best standard for product quality and productivity when measured by recognised international benchmarks and is very active in research and development, product innovation and skills development. (sub. 50, p. 2)

While TCF industries have been increasing their investment in technology, this appears to be concentrated in a relatively small number of firms. ABS innovation data indicate that fewer than one in three TCF manufacturers undertook some form of technological innovation over the period 1991 to 1994. However, these firms are highly represented among export oriented TCF companies. In 1993-94, 81 per cent of TCF exports were accounted for by those firms which had undertaken technological innovation (ABS 1995c). 6

There appears to be scope for increased use of these innovations within the industries. The Cooperative Research Centre for Advanced Composite Structures stated that:

... insufficient attention is given by the Industry to education and research and development in the use of these materials [advanced textiles], which have excellent potential for developing viable, high-technology industries in Australia. Most of these advanced textiles are imported from Europe, USA and Japan. They are excellent examples of high-technology, high-value-added, industrial textiles. (sub. 246, p. 1)

As well as purchasing new technology developed elsewhere, the Australian TCF manufacturing industries can create technological advantages by undertaking their own research and development (R&D). The Australian TCF industries’ R&D intensity (expenditure on R&D as a proportion of turnover) was 0.27 per cent in 1994-95. Although this was substantially higher than in the mid-1980s, it was significantly lower than the average across the manufacturing

---

6 Technological innovation can comprise any of the following activities: design; R&D; acquisition of technology in the form of patents, licences, and trademarks and in the form of machinery and equipment; tooling-up and industrial engineering; manufacturing start-up and pre-production development; and marketing for new products.
sector, at 1 per cent. By international benchmarks, Australian clothing and footwear firms, in particular, spend a low proportion of their net sales on research and development (Arthur Andersen 1997).

The Melbourne Institute of Textiles believes that Australia should consider overseas models of R&D, such as AMTEX in the United States. This is a joint government-industry research partnership on technology for textiles. Its focus is on quantum leaps in technology to strengthen the competitiveness of the US industry. The Institute said that:

... research and development in TCF is not coordinated and not often available to, understood or practiced by, many of the smaller firms which make up the TCF sector. The ultra-competitive nature of parts of the industry and its organisations (wool versus cotton etc) often mitigates against the sharing of new ideas and techniques throughout the Australian industry. (sub. 180, pp. 12–13)

As the Australian TCF industries have been exposed to increased international competition, there has been an increase in commitment to R&D in recent years, although from a low base (see Table 1.11).

Table 1.11: TCF and manufacturing private R&D expenditure, 1984-85 to 1994-95

<table>
<thead>
<tr>
<th></th>
<th>TCF</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private R&amp;D expenditure</td>
<td>As a proportion of turnover</td>
</tr>
<tr>
<td>1984-85</td>
<td>$7.92</td>
<td>0.08</td>
</tr>
<tr>
<td>1986-87</td>
<td>$15.91</td>
<td>0.16</td>
</tr>
<tr>
<td>1988-89</td>
<td>$8.28</td>
<td>0.08</td>
</tr>
<tr>
<td>1990-91</td>
<td>$14.51</td>
<td>0.15</td>
</tr>
<tr>
<td>1991-92</td>
<td>$16.37</td>
<td>0.18</td>
</tr>
<tr>
<td>1992-93</td>
<td>$15.29</td>
<td>0.18</td>
</tr>
<tr>
<td>1993-94</td>
<td>$15.74</td>
<td>0.18</td>
</tr>
<tr>
<td>1994-95</td>
<td>$24.41</td>
<td>0.27</td>
</tr>
<tr>
<td>1995-96</td>
<td>$18.44</td>
<td>na</td>
</tr>
</tbody>
</table>

na not available.

Source: ABS 1996c and 1997f

However, TCF firms in Australia are generally smaller than the manufacturing average. To the extent that R&D expenditure requires some ‘critical mass’ it may be that a significant proportion of TCF firms do not have the necessary scale to undertake their own R&D (see Section 1.5).
It should be noted that R&D expenditure data exclude certain other relevant expenditures. Participants indicated that these figures may underststate the level of expenditure on product development by the industries. In particular, it is argued that expenditure on design, which is excluded from statistics such as those above, is a major part of the R&D effort (broadly defined) of TCF companies. While the distinction between fashion design and product development is not a clear one, most design activity would appear to be more in the realm of product differentiation, than development of new materials or production methods.

**General assistance for R&D**

The major forms of generally available Commonwealth Government assistance to industrial R&D are discretionary grants and an R&D tax concession. Since 1992-93, a total of $1.61 million in Commonwealth Government R&D grants has been provided to only seven TCF firms for four projects. Most of this (67 per cent) was provided to firms in the leather industries, the remainder being granted to textiles firms (AusIndustry correspondence).

To be eligible for the general R&D tax concession (125 per cent since August 1996, 150 per cent previously), annual R&D expenditure must exceed $20,000. The TCF industries comprise mostly small firms who employ fewer than 10 people (Appendix B) and average R&D expenditure is below the qualifying threshold for the concession. Concessions for partnerships and syndicates, which enabled small firms to combine their R&D claims to qualify for the tax concession, were abolished in August 1996.

Use of the tax concession by TCF firms is shown in Table 1.12. Both the number of firms claiming the concession and the total amount being claimed have grown considerably since the scheme’s inception in July 1985, as has been the case with manufacturing as a whole.

The trend and intensity of tax concession claims are consistent with overall TCF R&D expenditure, particularly the large increase in R&D in 1994-95. While TCF claims for the tax concession have grown substantially in recent years, as a proportion of turnover they are significantly lower than that for total manufacturing (1.2 per cent in 1994-95), and are likely to have been concentrated to larger enterprises. (Assuming all claimants paid a company tax

---

7 Only those projects where an industry code was recorded. It is possible that some TCF projects have received grants but have not been recorded to a particular industry.
rate of 33 per cent and had sufficient company profits, the 1994-95 TCF concession is equivalent to a nominal R&D subsidy of $5.1 million.\textsuperscript{8}

Table 1.12: Number of TCF claimants and their concessional R&D expenditure, 1986-87 to 1994-95

<table>
<thead>
<tr>
<th>Year</th>
<th>Claimants (No.)</th>
<th>Concessional expenditure(^a) ($\text{’000}$)</th>
<th>Proportion of turnover (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-87</td>
<td>18</td>
<td>2 175.0</td>
<td>0.02</td>
</tr>
<tr>
<td>1987-88</td>
<td>28</td>
<td>6 151.7</td>
<td>0.06</td>
</tr>
<tr>
<td>1988-89</td>
<td>24</td>
<td>9 916.1</td>
<td>0.09</td>
</tr>
<tr>
<td>1989-90</td>
<td>32</td>
<td>7 596.1</td>
<td>0.08</td>
</tr>
<tr>
<td>1990-91</td>
<td>24</td>
<td>6 120.5</td>
<td>0.06</td>
</tr>
<tr>
<td>1991-92</td>
<td>33</td>
<td>6 418.9</td>
<td>0.07</td>
</tr>
<tr>
<td>1992-93</td>
<td>35</td>
<td>6 010.8</td>
<td>0.07</td>
</tr>
<tr>
<td>1993-94</td>
<td>44</td>
<td>13 581.9</td>
<td>0.15</td>
</tr>
<tr>
<td>1994-95</td>
<td>49</td>
<td>30 609.9</td>
<td>0.34</td>
</tr>
</tbody>
</table>

\(^a\) 1989-90 prices

Source: Unpublished data, Tax Concession Operations Branch, AusIndustry, DIST

If firms are to make use of the tax concession, they must have sufficient profit levels or a reasonable prospect of future profits against which to write off R&D expenses. The Commission (IC 1995d) found that the benefit provided by the tax concession scheme is not uniform across all companies, but depends, among other things, on their taxable income status. As discussed above, the profitability of the TCF industries, particularly the clothing and footwear industries, may be below that of manufacturing in general. Before its abolition, R&D syndication was mainly used by tax-loss companies as a vehicle for exchanging those losses for R&D funds. Thus, all parts of the TCF manufacturing industries may not have the same access to generally available R&D assistance measures.

The uncertain nature of the environment in which TCF firms operate may provide an argument for government intervention in TCF R&D. Risk and uncertainty is associated with investment in R&D in general — uncertainty about the outcomes of research and market or commercial risk associated with exploitation of the outcomes of R&D. There is potential for under-investment in R&D if individuals or firms are too risk averse, or lack the capacity to spread

\textsuperscript{8} $30.6$ million $\times 0.33 \times 0.5$. 
risk. There may be an argument for government assistance to overcome reduced R&D investment caused by the hesitancy of individuals to accept risk (IC 1995d). In the TCF industries, significant change has contributed to an (often pessimistic) environment of uncertainty.

Specific R&D assistance

The Commonwealth Government also provides specific R&D assistance to the wool, cotton and livestock industries. This assistance is provided through a number of grants and programs and through funding of the CSIRO. Assistance to the cotton industry is largely concentrated on the agricultural sector, rather than on processing and manufacturing. However, government funded wool research is focussed on both farm and early stage processing.

The Australian Wool Research and Promotion Organisation (AWRAP) — now integrated with the International Wool Secretariat (IWS) — funds research and development from a 0.5 per cent tax paid by growers on the gross value of sales of shorn wool which is matched dollar-for-dollar by the Commonwealth Government. An additional levy of 3.5 per cent is imposed to collect funds for wool promotion, administered through the IWS. Until recently, the IWS also operated its own wool textile research laboratory in the UK which is now disbanded.

According to the NSW Farmers’ Association, in 1995-96 $25.7 million was allocated by AWRAP/IWS for research and development, the majority of which was paid to the CSIRO. Approximately 42 per cent of the R&D budget was spent on on-farm R&D, 55 per cent on post-farm R&D with the remainder allocated to economic research.

Given the importance of wool to the Australian economy, there may be a role for government assistance to R&D if there are sufficient spillover benefits. The small share of wool in the world fibre market means that Australian wool research and development is particularly important. This was recognised by the CSIRO:

Due to the small size of the wool industry and Australia’s dominant position in it, few other countries invest in wool research. The cost of carrying out research in Australia is low compared with developed countries. The increasing levels of value adding to wool (scouring and topmaking) and the application of chemical treatments (for example, shrink resist) at earlier stages in the processing sequence are strong reasons for prosecuting research of this kind in Australia.

(sub. 131, p. 5)

In addition to company-sponsored innovation, the AWRAP has sponsored innovation in wool textiles. An example of this innovation is a technique for
producing wool/Lycra elastomeric yarns, which has been developed and commercialised with European and Asian companies (AWRAP 1996, p. 40). Recent CSIRO innovations with commercial possibilities include crease-resistant garments made of up to 80 per cent wool and wool with a natural lustre resembling silk (Ragtrader 1-14 May 1997, pp. 4–5).

However, the Commission was concerned by the lack of a relationship between the Australian textile industry and the IWS, leading to poorly directed R&D and low levels of commercialisation. This would decrease the likelihood of significant benefits flowing to the Australian community. If the major benefits of wool R&D accrue either to growers or foreign textile producers, there is little spillover benefit to the broad Australian community to justify a contribution from taxpayers generally.

Participants expressed dissatisfaction with the performance of the IWS and AWRAP, and argued that structural problems with the organisations had caused a lack of accountability. The IWS has been criticised for developing an insular and remote approach to wool research and promotion.

The NSW Farmers Association has stated that producers were concerned that much of the research funded by wool growers had not been adequately commercialised:

... for many years literally millions of dollars have been spent on research and development, only to have the end results sit in scientific journals or unread technical reports. The task of extending and commercialising research has been “slipping between the cracks”, with neither research organisations or the IWS investing adequate time and effort in this activity. (NSW Farmers Association 1997, p. 8)

The IWS has implemented a number of changes following a review of its R&D activities. These include a substantial reduction in the number of R&D projects — down from approximately 270 at present to about 50. The NSW Farmers’ Association has supported this move (provided there is increased collaboration between research providers and commercial partners), stating that:

... dedicating more resources to a smaller number of projects appears logical and should result in more commercially focussed and better integrated research. (NSW Farmers’ Association 1997, p. 8)

Reforms to the IWS include giving woolgrowers the opportunity to vote on the future level of wool tax for wool promotion and research.

However, while these changes may be beneficial, the recent closure of the IWS research facility means that there is now no comprehensive wool textile research facility anywhere in the world. This could have serious implications for the future of wool textiles in general, and the Australian wool industry in particular.
Finding

The Commission considers that a broad and strategic review of arrangements for wool textile research should be undertaken.

Given the importance of R&D and innovation to the future competitiveness of the TCF industries (see Section 1.6) and that, for the reasons outlined above, there appears to be under-provision of R&D, the Commission proposes that the industries be granted adjustment assistance specifically for upgrading their R&D effort. The framework for R&D and information and technology development in the TCF sector should be improved.

Recommendation

A TCF Technology Development Fund should be established, to the value of $10 million over the life of the program.

TCF information network

As the barriers to trade decline and domestic producers face stronger competition from overseas, linkages and alliances between small and medium domestic producers become more important. The development of alliances and clusters (see Section 1.6) between small and medium sized TCF firms, is one of the factors behind the success of the US and Italian TCF industries. The ACM has noted also the benefits of such alliances:

Overseas experience indicates that cooperation between companies may enable them to compete in the world market to counteract such disadvantages as small company size, marketing inefficiencies or imbalances created by foreign governments. (ACM 1990, p26)

Alliances do not need to be between firms located close to each other. Computers and the internet are one way of overcoming the obstacle of distance and making access to information more affordable to small and medium TCF firms. Currently, the TCF industries can gain access to information sources which assist them to develop export markets and utilise government budgetary assistance programs. However, it is less easy for them to gain access to information which would facilitate the development of alliances and clusters. While the IWS runs a global intelligence network, it is for wool only.

Several participants advanced the development of a global intelligence network, including Melbourne Institute of Textiles (sub. 180), Victorian ALP (sub. 175), and North Link, Melbourne’s Northern Economic Wedge Inc. (sub. 195). The
Melbourne Institute of Textiles in its submission cited the United Nations Trade Point Development Centre model as a possible example (sub. 180, p. 12).

The Commission considers that there are benefits to be gained by the TCF industries from establishing an internet-based ‘virtual cluster’ through an information network which disseminates information within the TCF industries. In addition to eliminating the geographical barriers, such a network could:

- provide information on such matters as trade and fashion trends, and marketing;
- inform the TCF industries of technological developments, benchmarking practices and other industry-wide management improvement techniques; and
- identify ways of improving quality, response time, supply chain relationships and new market opportunities.

In addition, the Melbourne Institute of Textiles stated that a global intelligence network:

... also attracts additional research, and facilitates Think Tanks on key strategic issues. (sub. 180, p. 12)

It is in the TCF industries’ own interests to fund, manage and operate its own virtual information network. However, in recognition of the large start-up costs, including the time, information, and technical expertise required, and the innovative nature of the project — from which other industries may learn and derive benefit — government could help to facilitate the establishment of such a network. If modest government assistance was needed, for this purpose, the Commission suggests that such assistance be allocated from the proposed Technology Development Fund (see previous Recommendation).

**Recommendation**

The Government should facilitate the establishment of an internet-based information network to help TCF firms develop ‘virtual clusters’. Once established, the TCF industries would be responsible for funding, managing and operating the network.

### 1.4.5 Institutions and infrastructure

The institutions and infrastructure on which all firms rely have an important influence on competitiveness. Many participants criticised the lack of reform in
areas of the economy which imposed significant costs on manufacturers and impeded their performance.

For example, the Carpet Institute of Australia stated:

\[ \text{... we do not believe that the microeconomic reform program has kept pace with the pace of tariff reductions. (trans., p. 396) \]

A substantial number of firms believed that such reform as had been undertaken had little or no impact on their competitiveness. The City of Greater Geelong and the Geelong Wool Industry and Manufacturing Industry Taskforces argued that reductions in tariffs were proceeding at a rate well ahead of the cost improvements that industry members experienced from microeconomic reform (sub. 105).

Labour markets, the waterfront and taxation were regarded as areas in particular need of urgent reform. Scapa Filtration argued that:

\[ \text{... too little has been accomplished in associated microeconomic reform, in particular workplace reform has been slow to develop and wharf reform non-existent. (sub. 28, p. 7) \]

The Australian Chamber of Manufactures stated that the government must lift the pace of microeconomic reform and that two elements were essential to the future competitiveness of the TCF industries — port reform and tax reform (sub. 87, p. 22). TCF firms surveyed by the National Institute for Economic and Industry Research (NIEIR) commented that port efficiency and transport costs were still short of international standards. For example, port handling times were considered to be 120 per cent behind best international standards. The Victorian Government quoted a TFIA observation that, compared with international standards, the costs of transport and handling are at the high end of the spectrum and that:

\[ \text{... the burden for TCF has also increased following the higher frequency of deliveries associated with the introduction of methods to speed up distribution through the supply chain. (sub. 152, p. 12) \]

Even those firms which acknowledged gains from microeconomic reform expressed the view that more needed to be done. For example, CDA recognised that some progress had been made in labour market flexibility, national competition policy, telephone charges and airfares. However, it stated that:

\[ \text{Our transport system, particularly rail and the waterfront, is well below world’s best practice. Despite progress such as the Mutual Recognition Agreement between the States there are still far too many differences in legislation across} \]

9 NIEIR undertook a small survey of TCF firms for the Victorian Department of State Development.
Microeconomic reform generally will play an important role in the future of the Australian TCF industries. The issue of pursuing further reforms in the labour market is discussed in Chapter 3. Taxation and regulatory issues are discussed in Chapter 5.

1.5 Questions of scale and scope

There are three issues associated with scale and scope which can affect the future of the Australian TCF manufacturing industries:

- the dominance of small to medium-sized firms, and the associated information and investment difficulties;
- the overall size of the domestic market and whether the industries can achieve ‘critical mass’; and
- the interdependence of different links in the supply chain.

1.5.1 Firm size

It has been argued that the capital structure of TCF industries has led to under-investment. More than other parts of manufacturing, TCF is dominated by privately owned and managed small and medium-sized enterprises (SMEs), although many of the larger firms have multinational operations. Like many developed countries, including Italy and the United Kingdom, more than 80 per cent of Australian TCF establishments have fewer than 20 employees (see Appendix B). About one third of firms are sole proprietors or partnerships (IC and DIST 1997).

It has been argued that SMEs generally encounter greater difficulties than larger enterprises in gaining access to capital markets for a variety of reasons unrelated to the underlying profitability of their operations. For example, some studies suggest that SMEs’ access to capital may be:

... affected by substantial search, information, and transaction costs, and by the relatively high level of risk and uncertainty associated with SME-based investments. (NICS 1995, p. 27)

Similarly, the Commonwealth Government in its response to the final report of the Small Business Deregulation Task Force argued:

Small, technology-based firms find it extremely difficult to attract early-stage capital due to weaknesses in the Australian capital market. Evidence suggests
that this problem is particularly severe in the investment range of $500,000 to $2 million. (DPMC 1997, p. 101)

There are other reasons why SMEs may be less likely to gain access to capital markets which do not relate to a failure in capital markets but reflect actual commercial considerations. These include the unwillingness of some small business operators to change the structure of their operations and the inherent riskiness of small business activities which often rely crucially on one individual for their continuing success. For example, in a study of investment financing for SMEs, the National Investment Council found that investment behaviour is linked with the lifestyle choice of small business proprietors:

Only around 10 per cent of SMEs aspire to significant growth and only about 30 per cent of these are willing to take external equity. (NICS 1995, p. 1)

The same study also found that many SMEs which did wish to grow were not ‘investment-ready’:

That is, they fail to meet fundamental requirements to be attractive to external investors. For instance, they have not separated their business and personal affairs; they depend on one key individual; and/or they have not established a sustainable market niche. Many growth SMEs are not aware of what is required to be investment ready, resulting in important failings on the demand side for finance. (NICS 1995, pp. 1–2)

Fixed establishment costs for debt and equity finance also may be a commercial factor which influences the relative price of capital to SMEs:

It takes as much effort to review a cash flow based loan proposal for $500,000 as it does one for $5 million; as much to undertake the due diligence review for a $1 million investment in an SME as it does for a $10 million investment. (NICS 1995, p. 27)

The Reserve Bank of Australia found that the cost of finance for small business differs significantly from that for large business, mostly reflecting differences in — and difficulties in assessing — risk:

The average interest cost to small business for variable-rate loans is just under 2 percentage points higher than that for large businesses ... Measured as an aggregate across all loan products, the gap is 2.4 percentage points. (Reserve Bank of Australia, *Bulletin*, April 1997, p. 3)

The factors outlined above may help to explain the differential pattern of investment identified by Godfrey Hirst. It identified:

... [a] substantial capital investment gap between the major companies in the industry and the balance of the industry participants. (sub. 113, p. 13)

The ‘investment gap’ also may be partly explained by increasing foreign investment in TCF industries in Australia, which has been concentrated in the
larger, more capital-intensive activities. Over the 1990s, foreign investment in TCF industries has grown at a faster rate than in manufacturing as a whole, and was nearly 50 per cent greater in 1994-95 than 1991-92.\footnote{ABS Balance of Payments and International Investment Position, Australia, 1993-94, Cat. no. 5363.0}

The Commission is not aware of any clear evidence which suggests that under-investment is occurring in these industries because of a prejudice in capital markets against small businesses. In any case, the access of SMEs to investment capital affects all SMEs across the economy, and any Government action to address this issue would be applied better at an economy-wide level.

Also, the significance for investment of the large number of small firms in the TCF sector needs to be kept in perspective. Data for 1992-93 indicate that nearly 70 per cent of value added occurred in firms employing 50 or more people.

Despite these impediments, small firms appear to be well placed to pursue profitable niche markets. Small firms often have the advantage of being flexible, being able to offer variety and quick response suited to the small Australian market. Strategies such as these are important for the future competitiveness of TCF firms and are outlined in Section 1.6. Some participants felt that SMEs were the future of certain TCF industries. For example, Exclusive Fleece said:

\begin{quote}
It is in the small and medium enterprises that export and employment growth will come from and these are the very organisations that are able to develop niche markets and give us the vibrant, diverse and competitive industry we need. These are the companies that will be internationally competitive in their field, export oriented, innovative, responsive and less dependent on support. (sub. 171, p. 7)
\end{quote}

\section*{1.5.2 Size of the domestic market}

Some participants feared that growing import competition would reduce the local industries’ share of the domestic market to the point where the local industry would fall below the critical mass necessary to reach economies of scale and scope. For example, Bradmill Undare stated that its major impediment was the lack of a sufficient domestic market:

\begin{quote}
... our domestic market is all but gone and we are becoming very, very dependent on international markets to create that international mass. ... if your markets are not here or you do not have a domestic base that gives you at least a solid
\end{quote}
Participants also argued that a strong domestic market is required for product development. Michell Leather believed that:

Finished leather can be and is exported, however all developed country finished leather exporters have a relatively vibrant domestic footwear industry which serves not only as their primary market but also as their most important sounding board and their base volume provider. (sub. 42, p. 6)

Significant parts of the TCF industries have rationalised to achieve the scale necessary to make efficient use of new, expensive, labour-saving technology. This has occurred both within firms, and through takeovers and mergers among firms. Baston (1996) noted particular examples of rationalisation in the textile industries, involving the formation of Textile Industries Australia (bedlinen — a large part of which has subsequently been sold to CS Brooks), the Macquarie Textiles Group (woollen and worsted spinning and weaving) and Rocklea Spinning Mills (cotton spinning). There were also mergers in the knitted fabrics sector — for example, the formation of the Calum Textiles Group. A number of these appear to have been driven by the need to maintain economies of scale in the face of a declining local market.

The emphasis on the size of the domestic market, and the ‘threat’ of import competition taking away part of that market, reflect the traditional focus of large parts of the Australian TCF industries on the domestic market. For a long time, high levels of assistance, particularly the existence of quotas, guaranteed local producers a large share of the domestic market, and did not encourage an international focus. Reductions in protection have allowed domestic demand to express itself more clearly, often by demanding cheaper or higher quality products. These reductions also have highlighted the need for improved management and productivity. The more flexible domestic TCF manufacturers now are responding to this change in the demand environment by either finding domestic market niches or seeking out export markets.

The Victorian Government noted that export markets can make up for limited domestic opportunities:

Exporting is central to promoting scale and volume production and to secure sustainable returns on investment. ... As product runs based on the Australian market alone are clearly of limited size relative to those achievable in most other countries, there is substantial scope for improved competitiveness if the product can be exported to a regional or global market. (sub. 152, p. 5)

The size of the domestic market need not be a critical factor in a mature industry such as TCF — clearly it is not for the raw material producers or for the early
stage processors, who export a large proportion of their output. Although export orientation by TCF firms is increasing, there may be scope for more attention to offshore markets by TCF firms. In a recent survey, 11 per cent of TCF firms surveyed intended to maintain or commence exporting in the next three years. This is below the manufacturing average of 16 per cent (IC and DIST 1997).

Nevertheless, companies in many of the industries expressed the view that there was need for greater rationalisation to reap further economies of scale and scope.

Other successful TCF firms are targeting higher value added niche markets within Australia (see Section 1.6 below). A large domestic market is not essential for manufacturers of higher value niche products — mass markets are only necessary for mass producers.

1.5.3 Interdependencies along the supply chain

Several participants have argued that their own viability is threatened by the possible departure from Australia of suppliers or customers. For example, Du Pont indicated that its primary concern with the Draft Report’s recommendations is their potential impact on its downstream customers, especially the carpet manufacturers (sub. 190, p. 1). Nevertheless, it decided to specialise in carpet yarn production in an expanded, world scale plant.

Upstream relationships are also considered important. Dianna Ferrari felt that reliable components manufacturers were vital for its own success. To this end it purchased a local component company to ensure continuity of supply (sub. 85). Done Art and Design argued that in some cases fabric suppliers are dependent on a local textile printing industry:

... if our textile printers decided they could not survive (either because they are inefficient themselves or because their customer base disappeared) we would print off-shore. It would then be natural to source fabrics off-shore — if we did that we might as well make off-shore as well and import the finished garment.
(sub. 1, p. 6)

There is a clear interdependence between textile and clothing manufacturers. Around 80 per cent of Australian textile fibres, yarns and woven fabrics are used as inputs into further production — a larger proportion of which are absorbed by the clothing industry. Australian clothing manufacturers obtain approximately half of their textile inputs from domestic sources (ABS 1996a). Similarly, Australian textile fibre, yarn and woven fabric producers sell
predominantly to the local market, exports only accounting for between 9 and 33 per cent of their turnover (see Section 1.3).

1.6 Business strategy

Business strategy is an important determinant of competitiveness. The wide disparity in performance of firms within the same TCF industries often appears to be due to management practices and strategy rather than broader influences such as national factor endowments or scale issues.

Firms have responded in many different ways to the changing environment. The most common and successful strategies usually involve a combination of:

- modern management techniques;
- product and process innovation;
- specialisation;
- an emphasis on quality and brands;
- the creation of alliances;
- quick response; and
- flexibility.

The Victorian ALP recognised many of these strategies as vital for the future success of the industries:

... the key ingredients to the TCF industry’s viability is establishing brand names, improved quality, quicker response times, identifying niche markets and a preparedness to be innovative. (sub. 175, p. 9)

There have been successes and failures in all TCF industries, as in other industries. Some of the better performing companies have been in low growth or declining industries. While some Australian TCF firms are as profitable as their overseas counterparts and some operate to world’s best practice, there is scope for improvement by many others (Arthur Andersen 1997). Australia has developed a polarised group of TCF firms. At one end of the spectrum, there are efficient, world-competitive firms which have discovered specialised market niches, compete with imports or export a large proportion of their output. However, at the other end of the spectrum, there are still many highly protected manufacturers producing for the domestic market, using largely imported (often duty-free) inputs. This polarisation is, in part, the legacy of a highly distorting assistance regime, with rates of assistance varying greatly across productive activities.
The proportion of TCF firms reporting the introduction of business improvement activities is below that of total manufacturing (Table 1.13). This is particularly noticeable in the areas of quality assurance and total quality management. However, this is not unexpected. Across all industries, smaller firms tend not to introduce business improvement activities. Of all firms employing fewer than ten people, only 5 per cent introduced any business improvement activity (IC and DIST 1997).

The proportion of respondents from TCF industries introducing just-in-time inventory control is above the average of all manufacturing respondents, although the proportions for both are quite small. As discussed below, an ability to offer flexible, rapid service to customers provides local industries with a competitive advantage over imports. The high rate of adoption of quick response techniques has been driven partly by retailers, who have encouraged suppliers to adopt more flexible production techniques and to play a greater role in inventory management, and partly by government programs such as the Supply Chain Partnership Program (see Appendix H).

Table 1.13: Firms introducing business improvement activities, 1992-93 to 1994-95

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total Quality Management (%)</th>
<th>Quality Assurance (%)</th>
<th>Just-in-time inventory control (%)</th>
<th>Other (%)</th>
<th>Any business improvement activity (%)</th>
<th>No business improvement programs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>12.7</td>
<td>87.3</td>
</tr>
<tr>
<td>Clothing</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>6.0</td>
<td>94.0</td>
</tr>
<tr>
<td>Footwear</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>27.7</td>
<td>73.3</td>
</tr>
<tr>
<td>Leather</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>8.5</td>
<td>91.1</td>
</tr>
<tr>
<td>TCF</td>
<td>1.6</td>
<td>4.4</td>
<td>1.6</td>
<td>4.2</td>
<td>9.5</td>
<td>90.5</td>
</tr>
<tr>
<td>Total manufacturing</td>
<td>2.2</td>
<td>11.0</td>
<td>1.2</td>
<td>5.9</td>
<td>17.5</td>
<td>82.5</td>
</tr>
<tr>
<td>Total all industries</td>
<td>1.1</td>
<td>4.5</td>
<td>0.5</td>
<td>3.0</td>
<td>8.1</td>
<td>91.9</td>
</tr>
</tbody>
</table>

a Disaggregated data should be treated with caution due to small sample size.
b This is less than the sum of the shares of firms introducing each type of activity, as firms can introduce more than one kind of business improvement activity.

Source: IC and DIST 1997

Identifying and pursuing best practice is particularly important in an increasingly competitive environment. However, TCF firms have been
relatively slow to adopt benchmarking, as shown by responses to the Australian Chamber of Manufactures survey, which stated that best practice benchmarking was the least important means of improving performance (sub. 87, p. 16). Only 12 per cent of TCF firms reported making ‘some comparisons’ with other firms in 1994-95, compared with 18 per cent for total manufacturing (see Table 1.14). Of those TCF firms which did undertake comparisons, only 1.4 per cent were formal comparisons.

Table 1.14: Firms comparing their operations with other firms, by industry, 1994-95

<table>
<thead>
<tr>
<th>Industry</th>
<th>Formal comparisons (%)</th>
<th>Informal comparisons (%)</th>
<th>Some comparisons (%)</th>
<th>No comparisons (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCF</td>
<td>1.4</td>
<td>11.5</td>
<td>11.6</td>
<td>88.4</td>
</tr>
<tr>
<td>Total manufacturing</td>
<td>4.9</td>
<td>17.3</td>
<td>18.5</td>
<td>81.5</td>
</tr>
<tr>
<td>Total all industries</td>
<td>4.7</td>
<td>17.1</td>
<td>18.4</td>
<td>81.6</td>
</tr>
</tbody>
</table>

a This is less than the sum of the shares of firms introducing each type of activity, as firms can introduce more than one kind of business improvement activity.

Source: IC and DIST 1997

More recently, 124 Australian TCF firms participated in the Best Practice 2000 Benchmarking Study, which was approximately 10 per cent of companies approached. The study shows that, internationally, TCF companies tend not to value benchmarking highly. Results indicate that some Australian firms are competing at or near best practice. Australian companies tend to do better as a group on lead times and flexibility than their overseas counterparts, but there is still significant room for improvement in many areas. Overseas firms outperform Australian firms in areas of productivity and quality.

Other strategies implemented by TCF firms to adapt to their changing environment are discussed in the following sections. These strategies are not unique to Australian firms and are not a recent development. In 1989, the Massachusetts Institute of Technology (MIT) Commission on Industrial Productivity identified four strategic shifts in textile firms in advanced industrial countries which appear to be associated with superior economic performance:

- A shift to market and production strategies which identify particular high quality, high value market segments and organise production in order to satisfy the specific needs of these limited niches, rather than producing commodity goods for mass markets;
• investment in new technologies, particularly in labour-saving technologies, often in conjunction with shifts in market strategy towards more flexible production;
• shifts in the structure of companies, often towards decentralisation and away from vertical integration (although many successful textile firms remain vertically integrated); and
• changing relations among firms, including the construction of linkages among sections of the industry (MIT 1989, pp. 72–73).

The following sections examine these and other strategies being adopted by Australian TCF firms.

1.6.1 Management

Management plays a crucial role in determining the success or failure of individual enterprises. Flexibility, innovation and quality are characteristics of management as well as of products and production processes. The quality of management can be a source of competitive strength. In the Australian TCF industries management appears to differ considerably between firms. Many TCF firms have developed strong in-house management, or have pursued management skills by importing management from overseas, or from outside the TCF industries. However, many other firms appear to suffer from relatively poor management. There are good and poor managers in all industries, not just TCF, and it is difficult to generalise about the characteristics of successful management. However, the following broad indicators provide some background to an assessment of TCF management.

Much of the management has been conservative, this being reinforced by the decades of protection from international competition. Driza Bone felt that tariffs protected poor management:

It [tariff protection] reflects negative thinking and protects poor management. As most or some of the companies here in Australia in the clothing industry tend to be owner managed, there is a vested interest to make their life easy. Even the major brands use contract companies to manufacture products for them and therefore the small company owner operator influence pervades the whole industry. (sub. 16, p. 2)

The TCF Exporters’ Forum stated that apart from the small proportion of exporters, Australian TCF businesses were still very ‘middle of the road’:

The most significant impediments to change in these organisations seem to be aspects of organisational culture, of attitudes and individual knowledge and mind-sets. Compared with the experience of interaction with the general TCF Exporters’ Forum community, the general impression is one of ‘middle of the
There is a wider variation in the level of education of TCF firms’ ‘major decision makers’ than for manufacturing as a whole. TCF decision makers are clustered at the two ends of the education continuum — they tend to be either tertiary qualified (32 per cent) or to possess only school level qualifications (47 per cent). This is a much greater degree of polarisation than for manufacturing as a whole (29 per cent tertiary qualified and 31 per cent school level) (IC and DIST 1997).

Although TCF managers are often very skilled in technical areas, they often do not possess broader management skills. The Textile Institute (Southern Australian Section) stated:

> Much of the industry is made up of small- to medium-sized companies with very lean management. Often, these are family businesses with skills in their specific market and manufacturing sector but sometimes without the broader management skills to manage their growth efficiently or optimise their operations. (sub. 119, p. 4)

TCF managers are less likely to have undertaken any form of training than other manufacturing managers, including management training. The share of TCF managerial staff who undertook training in 1994-95 was half that for total manufacturing (11 per cent and 22 per cent, respectively). Only 15 per cent of TCF firms undertook training in business management, compared with 21 per cent for manufacturing as a whole (IC and DIST 1997). Training issues are discussed in Chapter 3.

Competitive pressures will continue to drive TCF management. Good performers can be expected to prosper, often at the expense of poorer performers. However, the MIT Commission on Industrial Productivity (1989) identified five principal obstacles at the firm level to the diffusion of successful strategies in the US:

- the strength of the old production model restricting shifts from production of largely undifferentiated commodity goods to market niches with higher value-added goods;
- a human resources strategy which focuses on labour costs and protection from imports rather than improving productivity through firm reorganisation, technology and investment;
- barriers to information flow between the layers — for example, spinners and weavers having little contact with the apparel manufacturers who use their products;
• adversarial or distant inter-firm relations, with dominant firms appearing to be willing to sacrifice the advantages of long-term relationships for the benefit of short-term gain; and

• short time horizons, not just in inter-firm relations, but in relation to investment and research.

Many, if not all, of these factors appear to be evident in the Australian TCF industries. Collective action by the industry itself, with particular emphasis on the role of industry associations, can play an important role in overcoming these obstacles. MIT noted that in the US TCF industry:

The industry has exhibited a capacity for collective action that previously was possible only in its lobbying efforts for protection. (MIT 1989, p. 73)

1.6.2 Innovation

As discussed in Section 1.4, innovation is a strategy through which Australian firms may be able to develop an advantage over domestic and international rivals. For example, CDA stated:

One of CDA’s competitive strengths is in technology. This has resulted from a long period of investment in research and development in addition to a commitment to education and training of its employees. Technological superiority has been enhanced through a technology sharing agreement ... with ... one of the world’s largest textile groups. (sub. 59, p. 3)

However, in the past, the protected local market did not provide a strong incentive to develop or introduce new products and processes. As a consequence, the Australian industries have a weak tradition of investment in innovation, yet local and international experience suggests that innovation is one of the key strategies for survival in an increasingly competitive global environment. Low levels of R&D are reflected in the low innovation rate of TCF manufacturers (Section 1.4). Given the importance of innovation as a successful strategy to adapt to the changing environment, this has implications for the industries’ future.

In a recent survey of firms’ intentions, 23 per cent of TCF firms surveyed intended to introduce new goods or services in the next three years. Again, this was below the manufacturing average of 30 per cent of firms (IC and DIST 1997). However, it is possible to undertake product innovation without introducing a ‘new’ good — design is particularly important in the TCF industries.

There are many examples of Australian TCF firms which are pursuing innovation as a business strategy. For example, the Australian Retailers’
Association noted the move towards electronic data interchange among manufacturers (sub. 86, p. 3). This technology has improved the quality of service that Australian manufacturers can provide to their retail customers.

Scapa Filtration, which manufactures industrial filters, also emphasised the importance of design and innovation:

> Product and process innovation leadership is of significant importance to maintaining competitiveness. This requires corresponding investment in R&D and capital investment. Additional investment in our industry must be justified by long term growth and in particular export markets. With product innovation we consider ourselves average, but we probably lead competitors over the last decade. Our company and group attitude is to have more new products more quickly. (sub. 28, p. 8)

Companies have introduced new products as a way of gaining market share. Rocklea Spinning Mills stated that it is heavily involved in R&D, with the cotton and wool fibre production industries, and in product development. The development of ‘colana’, a cotton and wool blended yarn, is an example of the results of such innovation. Textile Developments (an alliance of six firms from along the production chain), also has developed a wool/cotton blend — for denim to be used in the jeans market (see Box 1.2).

Another example of innovation in the textiles sector is the work undertaken by the Cooperative Research Centre for Advanced Composite Structures (CRC-ACS), which is involved in research in the area of textile composites for use in aerospace and non-aerospace applications (sub. 258). The Centre is examining the design, manufacture and properties of textile composites made from preforms produced by one or more of the processes of stitching, weaving, knitting, braiding and automated yarn placement. These and other innovations may provide opportunities for entrepreneurial Australian TCF firms to compete internationally.

CRC-ACS stated that the commercial use of these materials is hindered by the need to prove that they can be cost-competitive and effective. This is made more difficult because the materials are new and often regarded with suspicion:

> The solution to these problems will only come about by the interaction of the textile industry with composite designers and manufacturers. By becoming involved at the early, conceptual stages of component design, the textile engineer has the chance to incorporate design and manufacturing concepts that would be unknown to the composite engineer but which would demonstrate the benefits in performance and cost reduction that textile preforms can bring to composite components (sub. 257, p. 37).
1.6.3 Specialisation

Until the removal of import quotas in 1993, the market encouraged Australian TCF manufacturers to produce a very wide range of products. Quotas guaranteed them a share of the local market, regardless of how uncompetitive they may have been in world terms (see Appendix I).

The removal of quotas increased exposure to competition and encouraged firms to concentrate on those areas where they perceive that they have some form of advantage. The TFIA noted that successful Australian TCF companies have concentrated on developing high value market niches:

> TCF companies have moved into other important value adding activities within Australia such as design, marketing, sourcing, financing, logistics and service support. (sub. 66, p. 27)

The South Australian Government stated:

> There is already recognition in the TCF industries that they need to restructure away from low price, mass produced, labour intensive products ... into higher quality specialist areas commanding higher prices. (sub. 132, p. 9)

Consolidated Apparel Industries stressed the need to ‘change the value equation’ for itself and its suppliers and purchasers and to create a unique position ‘beyond price’:

> ... to remain viable onshore we’ve really got to change the rules of the game and do something different from price. (trans., p. 129)

The TCF Exporters’ Forum envisaged further emphasis on market niches as the industries become more competitive:

> ... Australia’s TCF industries will increasingly focus their skills-base and financial resources on those markets where they are unique, both in terms of the design, innovation and differentiation of their produce ... (sub. 268, p. 5)

Some firms have pursued specialisation by contracting-out activities which they believe can be done more efficiently by someone else. In many cases this has extended to obtaining a large proportion of their products from overseas. However, adaptation to a market without quota protection is yet to be completed. Many TCF firms producing ‘commodity’-type products are finding it increasingly difficult to compete with imports — more so than those which have shifted into the production of specialised, higher value products.

**Contracting-out**

In 1994-95, many TCF firms contracted-out part of their activities previously undertaken by the firms’ employees. A greater proportion of clothing and
footwear firms engage in some contracting-out than for manufacturing as a whole (see Table 1.15).

Table 1.15: Contracting-out by industry, 1994-95

<table>
<thead>
<tr>
<th>Industry(^{a})</th>
<th>Number of firms which undertake contracting out</th>
<th>Proportion of firms which engage in some contracting out</th>
<th>Total number of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No contracting out (No.)</td>
<td>Some contracting out (No.)</td>
<td>(%)</td>
</tr>
<tr>
<td>Textiles</td>
<td>1 635</td>
<td>75</td>
<td>4.3</td>
</tr>
<tr>
<td>Clothing</td>
<td>1 653</td>
<td>395</td>
<td>18.6</td>
</tr>
<tr>
<td>Footwear</td>
<td>93</td>
<td>9</td>
<td>8.7</td>
</tr>
<tr>
<td>Leather</td>
<td>234</td>
<td>2</td>
<td>1.0</td>
</tr>
<tr>
<td>TCF</td>
<td>3 614</td>
<td>481</td>
<td>11.4</td>
</tr>
<tr>
<td>Total manufacturing</td>
<td>34 862</td>
<td>3 207</td>
<td>8.1</td>
</tr>
<tr>
<td>Total all industries</td>
<td>367 183</td>
<td>18 121</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Note: These data cover contracting out of activities in 1994-95 which in previous years were undertaken by the firm’s employees.

\^a\ Disaggregated data should be treated with caution due to small sample size.

Source: IC and DIST 1997

For example, Yakka has a significant business in providing corporate wardrobes. While some product items are manufactured by Yakka, specialist manufacturers are contracted to supply the shirts, tailored jackets and hats (trans., p. 301). Other firms in the clothing industry, such as women’s wear manufacturer Sport Fashions Group and children’s wear manufacturer Barrymore’s, have focused on design and marketing, and contracted-out virtually the whole production process (sub. 24 and sub. 9). This was recognised by the TCF Exporters Forum:

... a number of Australia’s leading TCF exporters have no manufacturing facilities of their own. Such trends encourage increased specialisation amongst related players, and therefore, represent a more efficient outcome than manufacturers simply acting on their own perceptions of what overseas markets require. (sub. 268, p. 8)

The increased use of contractors is related to the perceived increase in the use of homeworkers in the TCF industries, particularly clothing production. This issue is discussed in Chapters 3 and 4 and in Appendix D.
Overseas supply

An increasing number of Australian firms are developing links with manufacturers overseas and/or establishing offshore subsidiaries. Modern telecommunications have facilitated a separation of the stages of production without sacrificing quality and process efficiency. Global transportation costs have declined, making this separation international in nature. Australian firms may use overseas suppliers to provide inputs to Australian production, or to provide finished goods to complement their Australian-made range. For example, some clothing manufacturers (particularly the larger ones) have diversified their operations horizontally by becoming importers of finished products and thus supplying a product range while focusing on their areas of relative advantage.

The footwear industry provides a good example of firms combining local and overseas supply. The footwear industry has undergone the greatest decline in protection over the past ten years, and many footwear companies have adapted by large-scale importing of the most labour-intensive inputs to shoe manufacture. The Footwear Manufacturers Association of Australia stated that over the last ten years, local manufacturers have made increasing use of imported footwear parts to take advantage of lower labour costs overseas, but have maintained local assembly to ensure control over the quality of the final product (sub. 103, p. 5). For example, Diana Ferrari has adopted a mix of local and offshore sourcing — 84 per cent of its sales are manufactured locally, and of this some 30 per cent utilizes imported parts from China. A further 16 per cent of sales are of fully imported products (sub. 85, p. 1).

The Australian Business Chamber found that the operations of one fifth of Australian TCF companies sampled involved a combination of manufacturing activity conducted in both Australia and overseas (sub. 247). Best practice Australian companies tend to source more of their raw materials internationally than do their overseas counterparts. However, Australian TCF firms tend to have much lower investment in overseas assets (Arthur Andersen 1997).

More TCF firms are likely to make use of overseas supplies as protection continues to fall, particularly in the clothing and finished goods areas. Local manufacture will be concentrated in those areas where firms can compete most successfully, and may well incorporate imported inputs.

The Government has encouraged the use of overseas production of the more labour intensive elements of clothing manufacture through Overseas Assembly Provisions. This program is discussed in Chapter 6.
1.6.4 Quality and brands

A reputation for quality can allow a product to command a premium over its competitors. The Tasmanian Government provided the example of CS Brooks:

CS Brooks [owner of Sheridan] believe that they cannot match the product quality of Sheridan from its existing Canadian plants and that Sheridan Australia will continue to be the source of products for the US market. (sub. 64, Appendix 1)

The Australian Business Chamber found that 41 per cent of TCF firms surveyed were catering to the middle range of their market and that a further 40 per cent were catering to a combination of market segments (primarily the luxury and middle segments). The Chamber stated that the TCF industries have:

... restructured by catering to a different segment of the market to that which the majority of imported products were servicing. (sub. 247, p. 30)

The leather industries have recognised the importance of quality in remaining competitive, as illustrated by the Hide Improvement Program (see Box 1.1). The Australian Leather Industries Association said:

There is an active quality culture within the industry. Most members have taken up, or are in the process of taking up, one or more of the quality and management disciplines, such as ISO 9001. (sub. 229, p. 3)

One way of taking advantage of a reputation for quality is through strong brand recognition. Many Australian TCF firms rely on a ‘brand premium’ for their products. Clarks Shoes stated:

Clarks believes development of global brands across a large number of markets is the only sustainable future for footwear manufacturers and wholesalers. (sub. 80, p. 12)

National Textiles stated that it acquired an interest in Australian Weaving Mills to give it direct access to the retail towel market via their well-known national brands, Dri-Glo and Dickies (sub. 129, p. 2). Similarly, Blundstone claimed it:

... has established a national and international brand profile which is based on authenticity and quality and enhances the reputation of Australian products in world markets. (sub. 218, p. 1)

Fashion labels can be regarded as brand names, encouraging consumer loyalty and allowing the development of a reputation for quality. Labels such as Country Road have taken advantage of their strong reputation in the clothing field to move into broader ‘lifestyle’ products:

Over the past ten years Country Road has developed a unique positioning as a lifestyle brand which delivers quality, choice, style, value for money and outstanding service to its customers. (Country Road 1996, p. 3)
Pacific Brands emphasises the importance of its brands’ profiles to overall profitability (sub. 44). However, a strong brand name can also make it easier for a firm to switch from local production to importing. For example, Pacific Brands is a local producer, an offshore producer, an exporter and an importer. It has switched from local production to importing most of its footwear requirements — continuing to sell them under the same well-known brand names.

1.6.5 Alliances

In response to their increasingly competitive environment, some TCF firms have improved their competitive position by integrating vertically or creating alliances with other firms at different stages of the production and distribution chain.

These close working relationships between different stages of the production chain have many advantages. For example, the Wool Processing Task Force stated that the integrated nature of the later stage wool processing industry enhanced the ability to:

- process small lots and target niche markets;
- offer a quick response;
- produce a wide range of products; and
- maintain Australia’s reputation for quality and reliability (Wool Processing Taskforce 1993, p. 21).

The Carpet Institute of Australia noted a strong degree of integration in the carpet industry:

Six carpet manufacturers — Godfrey Hirst, Shaw Industries, Brintons, Victoria Carpets, Tascot Templeton Carpets and Tuftmaster Carpets — are vertically integrated, manufacturing all or part of their yarn requirements internally (sub. 120, p. 10).

In some cases, firms have integrated vertically in order to ensure continuity of supply and to improve the quality and efficiency of that supply. For example, Diana Ferrari acquired a component manufacturer which will act as an ‘arms length’ supplier to both Diana Ferrari and the trade at large. Diana Ferrari stated that:

This acquisition was a strategic decision to ensure continuity of supply and introduce ‘best practice’ into this vital part of our industry. (sub. 85, p. 4)
Similarly, Blundstone operates its own tannery to supply leather for its shoe manufacturing. This enables it to control the availability, quality and cost of part of its leather supply:

Of leather used 90 per cent is Australian sourced with approximately 50 per cent overall being supplied by the group’s related Tannery from Tasmanian hides. (sub. 65, p. 1)

While stopping short of full integration, alliances may extend from raw material suppliers to manufacturers, through manufacturers at various stages of the production process, right through to retailers (see Box 1.2).

Box 1.2: Alliances case study: Textile Developments

In January 1996, five companies from along the textile chain (Elders, Geelong Wool Combing, Australian Country Spinners, Bradmill and Just Jeans) each contributed to the formation of a new company, Textile Developments, with the goal of developing a wool and cotton blend fabric. The first target fabric was denim.

Under the chairmanship of Geelong Wool Combing, the companies each committed $50,000 and in February 1996 received a matching grant from the then Textile Clothing and Footwear Development Authority.

Textile Developments has launched its first product in Australia.

Source: Textile Developments sub. 94

These linkages can provide benefits both ways — in one direction, a close relationship with efficient suppliers enhances a firm’s ability to compete — in the other direction, a close relationship with an innovative, demanding customer base can stimulate suppliers. For example, the Apparel Group of Coles Myer has worked closely with suppliers to streamline the entire supply chain process:

Our businesses have moved towards a partnership approach to meeting customer needs and understanding and streamlining of each others’ business. Local suppliers have generally been very responsive. Over the past few years, a number of Australian manufacturers have increased their expenditure in new technology and infrastructure such as electronic data interchange supply systems, quality machinery and warehouse/distribution. This investment will take time to generate a return and present suppliers with the opportunity to become competitive on a larger scale. (sub. 58, p. 4)

At the opposite end of the value chain to raw materials, many manufacturers are establishing close relationships with retailers. Some TCF firms have established their own retail facilities, while others have developed closer links with existing retailers. Country Road, Rivers, Sportscraft and R M Williams have used their brand strength to move into retailing. Other manufacturers, particularly those
offering flexible supply and quick response strategies, have moved into much closer relationships with retailers.

Some manufacturers were concerned at the bargaining power of the large retailers. The Textile Institute (Southern Australia Section) argued that concentration of ownership of retailing brings problems in “the power the major groups can exert” (sub. 119, p. 4). For example, manufacturers are not just under price pressure, but retailers pursuing quick response have been shifting stockholding costs and inventory control costs on to suppliers.

However, although large players account for a substantial share of the retail market, retail organisations in Australia, including those in the TCF sector, themselves appear to face strong competition. A competitive retail environment, combined with declining consumer expenditure on TCF products (see Appendix E), has placed strong pressure on retailers’ margins. In this environment, and with reduced import protection, it is not surprising that TCF manufacturers are feeling increased pressure from retailers. However, little evidence has been provided of uncompetitive behaviour towards manufacturers by retailers (although affected manufacturers may be reluctant to complain about their major clients). Some participants argued that retailers, as well as manufacturers, have been going through a learning stage, adjusting to the new market conditions introduced by the removal of quotas and reductions in tariffs. For example, Clarks Shoes stated:

... there was an initial over-reliance on importing by retailers when quotas were abolished, which was later corrected. (sub. 80, p. 10)

The TCF/Retail Industry Group (1992) found that poor communication and a lack of understanding between retailers and manufacturers had been a major impediment to the development of a more mutually beneficial relationship. The Group recommended an integrated Partnership Program to facilitate cooperation between TCF manufacturers and retailers.

An improved relationship with retailers would facilitate an improved competitive position for many TCF manufacturers. For example, pressure from retailers for high supply standards creates opportunities for manufacturers who have implemented quick response programs.

1.6.6 Quick response

Virtually all successful firms appear to have moved closer to their customers, often through the adoption of ‘quick response’. Manufacturing flexibility has been supported by the adoption of just-in-time delivery and electronic data interchange. The adoption of a quick response approach to manufacturing
greatly assists domestic manufacturers in competition with imports by increasing their ability to service retail customers.

As retailers strive to reduce inventory costs, they have modified their purchasing strategies. For manufacturers, this has translated into smaller but more frequent orders throughout the season. This tends to favour small and flexible manufacturers located close to consumer markets. Overseas sourcing requires a longer cycle, although these cycles are being shortened with increasing use of electronic communication and air freight.

Purnell Shoe Company stated that, at present, retailers need to order imports sometimes as far ahead as six months, whereas the retailer can place a small order with a local supplier possibly only two months ahead and, if the line is successful, repeat orders may take only a week. This places the retailer in a far better position to respond to changes in the market place (sub. 82). However, Peter Sheppard Footwear claimed that shoes could be ordered from Italy and would arrive in Australia in as little as four weeks (DR trans., p. 591). L and L Direct claims that it can “email an order to the US on Thursday and receive the garments on Tuesday next week” (sub. 274, p. 1).

J Robins and Sons increased its responsiveness substantially by decreasing its turn-around time from 21 days in 1987 to 7 days in 1997:

... 7 days is the time that it takes us to plan, procure most of our components from outside suppliers and then manufacture and deliver the shoes to the warehouse. In actual fact now the physical time that it takes us to make a pair of shoes from cutting through to boxing is 3 hours compared to the old 21 days. (trans., p. 99)

Coles Myer stated that apparel retailers have been working closely with suppliers to pursue quick response. Coles Myer’s experience was that:

... because of their proximity and flexibility, Australian suppliers are generally better at responding to Quick Response than overseas suppliers, that have long lead times, production runs have to be booked into often inflexible schedules and most are sea freighted to Australia ... (sub. 58, p. 1)

In contrast to the Coles Myer ‘top down’ approach, where the retailer encourages its suppliers to introduce quick response, Consolidated Apparel Industries stated that in some instances it had to educate retailers about the benefits of quick response. Consolidated Apparel Industries regarded this as an advantage, as it was no longer selling a product, but a service:

There’s still a cultural change necessary in Australian retailing ... the major retailers have certainly grasped the concept of quick response much more than the smaller ones. The smaller ones, we’re actually going in and explaining to them the concept because they ... don’t understand how it works, what it means for them, how to implement it, how to manage it. ... that’s good for us because
we’re not just selling a pair of jeans any more, we’re actually selling a system. (trans., p. 128)

Relatively recently, quick response strategies have been reinforced by the introduction of Electronic Data Interchange (EDI) technology. The Australian Retailers Association stated that:

Global competition compels retailers and manufacturers to invest in the latest technology (not only in respect of production) but more particularly in electronic commerce. Manufacturers intent on remaining competitive must become involved with retailers in electronic commerce, for example, EDI as a normal part of doing business. (sub. 86, p. 6)

Technology has also reduced lead times and enabled faster response to customer requests at the design stage of the manufacturing process. Sportsknit, a division of the Australian Fashion Group, has reduced its average pre-production time for garment design from 21 to 15 days through the use of new software developed in Australia that allows the scanning of clothing sketches, comparing production costs and presenting an overview of a project at any time (The Australian, 29 July 1997, p. 5).

However, the adoption of quick response has involved a very new approach for many industry participants. Many smaller companies are still dominated by conservative managements who are reluctant to share information about their companies with others. Relationships with retailers often have been adversarial. In addition, under the previous blanket of heavy protection, local suppliers were under limited pressure to upgrade quality of products or services.

Over time, the example of successful firms and pressure from retailers should result in the spread of quick response strategies across the TCF industries. Already, manufacturers further up the value added chain are beginning to press their suppliers for more rapid response. For example, J Robins and Sons said:

It took us seven years to lower our lead times from 21 to 6 days, so it will take suppliers some time to reduce their lead times. ... the supply chain is slowly recognising the importance of quick response manufacturing and networking is starting to emerge. Our own Company has formed networks with Austanners ... who supply ... leather, our two heel manufacturers and various other component suppliers. (sub. 98, p. 3)

1.6.7 Flexibility

Some companies have turned experience with Australia’s relatively small market into an advantage, by capitalising on their flexibility. Sycotex stated that it has become Australia’s most diverse independent dyer and processor of yarns:
Through a continuing process of improvement and upgrading of plant and manufacturing methodology Sycotex has achieved the reputation of being able to engineer and dye a broader range of fibres and blends of fibres in yarn form than most other dyehouses anywhere in the world. This has been attained while offering a delivery cycle envied by the more traditional yarn producers. (sub. 108, p. 1)

Burlon Hosiery uses its flexibility to meet the short run fashion needs of the designer wholesale market:

... the designer wholesale market is a fashion market where there are new items being supplied every season. ... You have to make a sample quickly and then they go out and sell it, and then we have to quickly be able to meet their opening requirements. We make only to their orders — we don’t make for stock. (trans., pp. 118–9)

The relative success of local production of female outerwear is partly due to the high fashion component, which tends to lead to short-run and constantly changing production runs. Local manufacturers are close to the market and are in a better position to respond to changing consumer demand. Moreover, this is an area that lends itself to contract manufacture, where homeworkers are used extensively for assembly. The relatively low cost of homework may have contributed to the competitiveness of women’s wear manufacturing against imports. (Homeworking is discussed in Chapter 3 and Appendix D.)

1.7 Conclusion

Significant change has occurred in the Australian TCF manufacturing industries. The fact that the industries have had to adjust to an environment of much-reduced government assistance is certainly part of this picture. Other important elements include changes in technology, the demands of customers in the supply chain, consumer tastes and the economic development of Australia’s Asian neighbours.

In general, these changes are bringing large sections of the industries closer to a sustainable and internationally competitive position. As stated by the Textile Institute (Southern Australian Section):

The industry collectively, individual companies, and individuals in the industry at all levels have demonstrated a capacity to change. (sub. 119, p. 9)

As part of that process of change, the TCF industries have contracted in aggregate, but there has been growth in some activities. Within most sectors, there has also been considerable rationalisation. All industry sectors now rely on exports as well as the local market, and, as always in TCF, small, innovative companies have grown and developed their particular niches.
Parts of the industries appear to have developed a more positive, outward-looking attitude to change and freer trade. There are encouraging signs that large parts of the industries are rising to meet the challenges of a more competitive environment. Better performing companies appear to share a number of characteristics, focussing on their areas of advantage such as design, product differentiation and quality, quick response and other forms of service to customers, efficient linkages with suppliers, investment in staff skills and innovation in products and processes.

It is clear that the future for TCF in Australia (as in other developed economies) lies in production of goods and services on the basis of high labour productivity — not just in physical output per worker but in high value output per worker — including further processing of natural fibres. The basis of long-term competitive advantage continues to shift toward knowledge and innovation-based activities. In these activities, factors such as quality, design and brand identification are all major drivers. Even relatively small inroads into markets can produce significant rewards because of price premiums associated with such products. Central to this is the ability of firms to be creative in all parts of the production chain, from raw materials acquisition to final distribution of finished goods.

The TCF industries are making the transition towards a more confident, competitive and outward-looking future. Parts of these industries have good growth prospects, notwithstanding the recent decline of the sector as a whole. The best firms are equal with their international peers, but many companies still have a long way to go. The imperative to pursue business improvement strategies is weakened by the fact that these industries are still far more sheltered from competition than any other sector of the economy. However, this situation is changing as levels of protection continue to decline over the period to 2000. The resultant increase in competitive pressures is likely to bring about further restructuring of the industries.

To prepare for the challenges of an environment of lower assistance, there are five core areas which require attention by the TCF industries:

- the industries must become more innovative and must improve their use and development of new technology;
- information dissemination regarding technology, supply and market opportunities needs to be improved, particularly for the large numbers of small to medium sized firms;
- TCF firms must place a greater emphasis on quality processes and products;
• stronger links must be formed between suppliers and customers along the supply chain; and
• the skill levels of TCF management and labour must be improved.

These areas of improvement need to be reinforced by government actions to remove impediments to industry efficiency, such as unnecessary cost burdens and weaknesses in provision of infrastructure services.

The Commission’s recommendations contained in this report address these issues, which are discussed more fully in Chapter 11.
2 WORLD TRENDS IN TCF PRODUCTION AND TRADE

The TCF industries in all developed countries are facing adjustment pressures resulting from a changing internal and external environment. Some participants in this Inquiry have understated the adjustment problem of TCF industries in other developed countries, by assuming that the major TCF centres in Europe and the US are insulated from change because of quotas. However, in a recent report, the WTO Textiles Monitoring Body described the situation in Europe, where there have been job losses and enterprise closures but also adaptation and reorganisation.

Another Member (the European Community) explained that the textiles and clothing sector, which occupied a central position with over 2.2 million employees and contributed to about 4.2 per cent of value added in the manufacturing sector, had faced over recent years constant revaluation of methods, technologies and modes of organization, partly caused by external factors such as the bad external conjuncture, the entry into the market of new producers and new technological developments, but also internal factors of adaptation and reorganisation. Despite positive signs in respect of exports, production had fallen in 1996 and, as a result, a further 100 000 jobs had been lost during that year, in addition to the 600 000 jobs lost, and some 20 000 enterprises closed, between 1990 and 1995. Against this background the textiles and clothing sector had, nonetheless, improved its competitiveness at an international level in particular as a result of its specialisation in the high added value end of the sector and an active export strategy. A series of EC programmes assisted structural adjustment, such as assistance to regions or to the requalification or conversion of workers most affected by permanent adaptation, programmes to assist technological research and development and small and medium enterprises. The textiles and clothing sectors were in a position to take advantage of such programmes. (Textiles Monitoring Body 1997, para. 76)

Substantial job losses in TCF manufacturing have been occurring not just in Australia but in all of the major developed economies (see Section 2.2). Much of the adjustment pressure in developed countries reflects shifting comparative advantage and consequent shifts in the location of textiles and clothing production. Developing countries (mainly in Asia) now supply more than half of the world’s exports of clothing and a third of global textile exports, double their shares in the late 1960s (Anderson 1992, Table 1.3). There has been a migration of textiles and clothing industries within Asia also, first from Japan to the newly industrialising economies (Korea, Taiwan and Hong Kong) and more recently to China, Thailand, Indonesia and other countries. Another migration
may be under way currently to low-wage countries such as Bangladesh, Pakistan, Sri Lanka, Laos, Nepal and Vietnam (ILO 1996, p. 7).

... Taiwan is beginning to find that it is having trouble competing against the Chinese market which has a far cheaper labour force. Dyehouses are closing in Taiwan and setting up in China because of the labour costs. This is also true for Japan (which is investing heavily in Indonesia and more recently in Vietnam because of cheaper labour costs) as well as Korea. (Stephen Gercovich, sub. 38, p. 5)

These migrations have been driven by rising incomes and wage rates, by technological and communications advances that have enabled greater global specialisation in production1, and by economic policy settings in some low-wage countries which have enabled these countries to grasp the opportunities presented. As a result, a much greater proportion of the TCF needs of developed countries (predominantly Europe, the US and Japan) has come to be supplied from the developing countries, especially those in East Asia. These trends are a continuation of a process which has been under way for centuries.

The changing pattern of production and international trade in fibres, textiles and clothing provide a classic study of the dynamics of our interdependent world economy. Nowhere has that pattern changed more dramatically than in East Asia during the past few decades. For centuries before that, Asia supplied the textile manufacturers of Europe with natural fibres, including silk from East Asia along the route known as the Silk Road. Today East Asia exports virtually no natural fibres and instead has become the most important region of the world both as an importer of raw cotton and wool and as an exporter of manufactured textile products and clothing. (Anderson 1992, p. xix)

The emergence of Hong Kong, Korea and Taiwan and, more recently, China and some South East Asian countries demonstrates that economic change is continual. For these countries, change has not been a threat but a launching pad to the development of wealthier and more sophisticated economies. That in turn has made them larger markets for producers in developed countries.

An important factor underlying inter-country relocation of these industries has been the ability to separate production activities from design, product research and development, marketing and other information-processing activities. High-wage, high income countries have a comparative advantage in these activities but a disadvantage in labour-intensive production activities. The difference in

---

1 Specialisation has occurred not just in final products but in the production of intermediate products. Examples include the labour-intensive stitching of leather uppers in a low-wage country, prior to their subsequent assembly into complete shoes in another country, or the cutting of fabric into clothing parts in one country, with the relatively labour-intensive stitching and assembly into final garments taking place in a low-wage country. Design and marketing operations also have become more specialised.
the economic characteristics of these two sets of activities has led to greater internationalisation, with labour intensive production moving to low wage countries.

2.1 Changing global trade patterns

World trade in textiles and clothing has been growing faster than world merchandise trade overall, despite trade restrictions under the Multifibre Arrangements (see Appendix F for details) and relatively high tariff barriers. A feature of the global market is that most world trade in textiles and clothing involves the US, Europe and a small number of Asian countries. (Footwear follows a similar pattern, although Brazil is also a major exporter.) In 1995, the top 15 textile exporting countries accounted for 76 per cent of world textile exports. For clothing, the top 15 accounted for 66 per cent of world exports (WTO 1996a). In 1992, China accounted for 33 per cent of world footwear production, and the Asia and Middle East region accounted for 75 per cent of world exports of shoes (ILO 1996, Table 1.5). China’s footwear production has been growing strongly at a time when production has been fairly constant or falling slightly in the EU, US and the world as a whole (see Figure 2.1). Between 1990 and 1994, the value of China’s footwear exports increased at an average annual rate of 28 per cent (IC 1997b, Table A4.1)

By comparison with the world’s major exporters, Australia’s TCF exports are minuscule except in some early-stage processed products such as scoured wool.

2.1.1 Exports

Between 1980 and 1995, the value of textile exports from Asian countries increased by 298 per cent compared with an increase of 177 per cent for the world as whole — for clothing the corresponding increases were 308 per cent for Asia and 289 per cent for the world as a whole. The increase in Asian clothing exports is largely attributable to the huge increase in the annual value of clothing exports by China (see Table 2.1). However, there were big absolute increases in export values for the ‘Other’ category of countries, which suggests increasing global diversification of these industries.

For individual countries, the rate of growth in exports tends to reflect the stage of migration of these industries within Asia. For example, in a newly developing country such as Indonesia, which commenced textile and clothing exporting fairly recently, the growth in exports since 1980 has been spectacular, albeit from a low base — 5330 per cent for textiles and 3336 per cent for
clothing (see Table 2.1). For countries which have been active in exporting these products for longer periods, the growth rates are less spectacular although their export volumes are much bigger.

The Industry Commission has documented in greater detail the recent trade performance of several Asian countries in the textile, clothing and footwear industries (IC 1997b).

In 1980, the EU and Japan were the world’s two largest exporters of textiles, Germany being the largest single exporting country. Textile production is more capital-intensive than clothing production and requires a higher level of technological capability. In 1980, Japan was already a developed country — it had the capital and technology to become the first major Asian producer of textiles. By 1995, Germany was still the world’s largest exporter of textiles, with exports of $US 14.2 billion, followed by China, Italy and Korea (WTO 1996a). As one of the newer industrialised Asian economies, Korea had reached by 1995 a level of economic development similar to that of Japan a couple of decades previously. Korea’s share of world textile exports doubled over the period 1980 to 1995 (see Figure 2.2). Japan was the world’s second largest textile exporter after Germany in 1980, whereas by 1995 it had been
Table 2.1  Textile and clothing exports, 1980 and 1995 (current dollars)

<table>
<thead>
<tr>
<th></th>
<th>Textiles</th>
<th>Clothing</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>2,540</td>
<td>13,918</td>
<td>448</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1,775</td>
<td>11,908</td>
<td>571</td>
</tr>
<tr>
<td>Hong Kong (domestically produced)</td>
<td>909</td>
<td>1,814</td>
<td>100</td>
</tr>
<tr>
<td>Hong Kong (re-exports)</td>
<td>861</td>
<td>12,001</td>
<td>1,294</td>
</tr>
<tr>
<td>Indonesia</td>
<td>46</td>
<td>2,498</td>
<td>5330</td>
</tr>
<tr>
<td>Japan</td>
<td>5,117</td>
<td>7,178</td>
<td>40</td>
</tr>
<tr>
<td>Korea</td>
<td>2,209</td>
<td>12,313</td>
<td>457</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,611</td>
<td>1,132</td>
<td>603</td>
</tr>
<tr>
<td>Singapore (domestically produced)</td>
<td>143</td>
<td>263</td>
<td>84</td>
</tr>
<tr>
<td>Singapore (re-exports)</td>
<td>225</td>
<td>1,233</td>
<td>448</td>
</tr>
<tr>
<td>Thailand</td>
<td>330</td>
<td>1,648</td>
<td>399</td>
</tr>
<tr>
<td>Asia sub-total</td>
<td>13,230</td>
<td>52,672</td>
<td>298</td>
</tr>
<tr>
<td>Extra-EU(12)</td>
<td>9,428</td>
<td>21,814</td>
<td>131</td>
</tr>
<tr>
<td>Intra-EU(12)</td>
<td>16,029</td>
<td>39,364</td>
<td>146</td>
</tr>
<tr>
<td>US</td>
<td>3,757</td>
<td>7,372</td>
<td>96</td>
</tr>
<tr>
<td>Other</td>
<td>12,546</td>
<td>31,348</td>
<td>150</td>
</tr>
<tr>
<td>World Total</td>
<td>54,990</td>
<td>152,570</td>
<td>177</td>
</tr>
</tbody>
</table>

a  Asia refers only to exports by those countries listed in the table. It excludes re-exports by Hong Kong and Singapore.
b  Includes significant exports from processing zones. Export processing zones are free trade enclaves in the customs and trade regime of the host countries.
c  Hong Kong, like Singapore, is both a source of domestically produced exports and a major transhipment point for re-exports — in the case of Hong Kong, re-exports originate primarily from mainland China. To avoid double counting, re-exports are listed separately and are not included by the WTO in regional or world aggregate statistics — most of the value-added in re-exports occurs in mainland China rather than in Hong Kong. To avoid double counting, the re-export figures for Singapore also are not included in the Asia Sub-total or World Total figures in the table.
d  Textiles export data are for 1994.
e  Extra-EU exports refer to exports by EU countries to countries outside the EU. Data for 1995 refer to the EU(15) expanded to include Austria, Finland and Sweden.
f  Intra-EU exports refer to exports by EU countries to other EU member countries. Data for 1995 refer to the EU(15) expanded to include Austria, Finland and Sweden.

Source: WTO 1995a and WTO 1996a
The textiles, clothing and footwear industries have been overtaken by China, Taiwan, Korea and the US, Japan having diversified into other industries. Japanese firms have invested overseas, as a corporate survival strategy, to establish production bases in low-cost locations from which to supply Japan’s needs (IC 1997b, Appendix 7).

China accounted for only 4 per cent of world clothing exports in 1980. By 1995, however, it was by far the largest exporter, with 15 per cent of world exports, followed by Italy, Hong Kong, Germany and the US (see Figure 2.3). Notwithstanding this expansion by China, clothing exports by the EU (taken as a group) and the US have almost doubled over the period at current prices (see Table 2.1). In the EU and the US, import growth has been surprisingly strong for an industry which has been accorded significant trade protection in those countries.

Low labour costs have facilitated expansion of the clothing industry in China. Large parts of Hong Kong’s clothing industry have now moved into China as costs in Hong Kong have become uncompetitive — its share of exports has declined (Kurt Salmon and Associates 1996). Despite high labour costs, Italy, Germany and the US are still major clothing (and textiles) exporters. This is partly because these economies have extensive outward-processing arrangements, whereby clothing parts are cut domestically, then exported to low-wage countries to be assembled and subsequently returned as made-up items to supply their large domestic clothing markets. For example, the US for many years has sent cut textiles and clothing to Mexico to take advantage of low wage rates in that country. Arrangements specific to assembly in Mexico are being superseded now by the free trade provisions of the North American Free Trade Agreement (NAFTA). Similar outward-processing arrangements are used by the EU with low-wage countries in Central and Eastern Europe.

2.1.2 Imports

Textile imports have expanded in a number of Asian economies (most notably China) to supply the fabric needs of their clothing industries (see Table 2.2). In 1995, the EU(15) was the largest importer of textiles. Germany, China and the US were the world’s largest single country importers of textiles. Although Table 2.2 indicates that Hong Kong was nominally the world’s largest single country textile importer in 1995 — with gross imports of more than $US 16 billion, it undertakes high quality fabric processing on behalf of China and the majority of its textile imports are destined for re-export (Anson and Simpson 1996). Retained imports of $US 4.7 billion supply Hong Kong’s now relatively small clothing manufacturing industry.
World clothing imports are dominated by the EU and the US. The clothing imports of most Asian countries are small in absolute terms, with the exception
of Japan, which imported nearly $US 19 billion of clothing in 1995 (mainly from China), a more than ten-fold increase since 1980 (see Table 2.2). The growth rate of clothing imports has been rapid also in some of the other developed Asian countries, including Taiwan, Korea and Singapore, although import volumes are much smaller than for Japan. Higher incomes have fuelled an expansion in consumer demand in these countries. This trend can be expected to continue as GDP continues to grow at faster rates in Asia than elsewhere in the world. Notwithstanding this trend, however, the EU remains the world’s largest importer of clothing, followed closely by the US (see Table 2.2).

**Imports as a share of domestic consumption**

In the US, textile and clothing imports as a share of domestic consumption of these products rose from 12 per cent in 1980 to 35 per cent in 1993, on a volume basis (Dickerson 1995, Table 9.2). In 1994, US clothing imports came mainly from China, Hong Kong, Taiwan, Korea and Mexico. In the same year, textiles were supplied mainly from the EU, China, Canada, Japan and Korea (WTO 1995a).

In the EU, the share of imports in the consumption of clothing (excluding knitwear and measured on a volume basis) rose from 30 per cent in 1980 to 40 per cent in 1992 (Majmudar 1996). In 1994, clothing imports from non-EU countries came mainly from China, Hong Kong, Turkey and India. In 1993, textile imports from non-EU countries came mainly from Switzerland, India, US, Austria and China. The import share of footwear from non-EU countries rose from 38 per cent in 1990 to 48 per cent in 1993 (WTO 1995b, p. 41).

In Australia, the import share of domestic consumption (for TCF overall and measured on a value basis) has risen from 30 per cent in 1988-89 to 43 per cent in 1994-95 (see Appendix B, Table B3).

### 2.2 Adjustment by TCF industries in developed economies

These significant changes in the pattern of global trade have required adjustments in the use of factors of production in developed and developing countries. Adjustment in the developed economies is being reflected in changing trade shares and a change in the distribution of TCF manufacturing employment between developed and developing countries.

---

2 At that time Austria was not a member of the EU.
Table 2.2  Textile and clothing imports, 1980 and 1995 (current dollars)

<table>
<thead>
<tr>
<th></th>
<th>Textile</th>
<th></th>
<th>Clothing</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China a</td>
<td>1 100</td>
<td>10 914</td>
<td>892</td>
<td>np</td>
</tr>
<tr>
<td>Taiwan</td>
<td>288</td>
<td>1 792</td>
<td>522</td>
<td>6</td>
</tr>
<tr>
<td>Hong Kong (gross imports)b</td>
<td>2 967</td>
<td>16 859</td>
<td>468</td>
<td>695</td>
</tr>
<tr>
<td>Hong Kong (retained imports)b</td>
<td>2 106</td>
<td>4 858</td>
<td>131</td>
<td>383</td>
</tr>
<tr>
<td>Indonesia c</td>
<td>217</td>
<td>1 170</td>
<td>439</td>
<td>np</td>
</tr>
<tr>
<td>Japan</td>
<td>1 663</td>
<td>5 985</td>
<td>260</td>
<td>1 537</td>
</tr>
<tr>
<td>Korea</td>
<td>409</td>
<td>3 959</td>
<td>868</td>
<td>14</td>
</tr>
<tr>
<td>Malaysia</td>
<td>298</td>
<td>1 539</td>
<td>416</td>
<td>np</td>
</tr>
<tr>
<td>Singapore (gross imports)b</td>
<td>853</td>
<td>2 109</td>
<td>147</td>
<td>142</td>
</tr>
<tr>
<td>Singapore (retained imports)b</td>
<td>629</td>
<td>876</td>
<td>39</td>
<td>69</td>
</tr>
<tr>
<td>Thailand c</td>
<td>174</td>
<td>1 360</td>
<td>682</td>
<td>np</td>
</tr>
<tr>
<td>EU (12)d</td>
<td>8 024</td>
<td>18 115</td>
<td>126</td>
<td>9 569</td>
</tr>
<tr>
<td>US</td>
<td>2 542</td>
<td>10 441</td>
<td>311</td>
<td>6 943</td>
</tr>
</tbody>
</table>

np Not published by the WTO.
nc Not calculable.
a Includes imports into processing zones. Processing zones are free trade enclaves in the customs and trade regime of the host countries.
b Hong Kong, like Singapore, is both a final destination for imports and a major transhipment point. In the case of Hong Kong, a proportion of textiles are ‘imported’ from mainland China to be transhipped or else partly processed in Hong Kong, before being re-exported to mainland China for further processing. To avoid double counting, these re-exports are subtracted from gross imports to yield a figure for retained imports, with the re-exports figure presented in Table 2.1. The same procedure is adopted also for Singapore.
c Textile import data are for 1994.
d Refers to imports by EU member countries from countries outside the EU and therefore excludes imports by EU member countries from other EU members. Data for 1995 refer to the EU(15) expanded to include Austria, Finland and Sweden.

Source: WTO 1995a and WTO 1996a

2.2.1 Changing trade shares
The share of textiles in total US merchandise exports fell from 1.7 per cent to 1.3 per cent between 1980 and 1995. In the EU there was a fall from
3.7 per cent to 3.0 per cent (see Table 2.3).³

While these declines in export shares were occurring, import shares were rising (see Section 2.1). The share of textiles in total merchandise imports rose from 2.0 per cent to 2.9 per cent in the EU and from 1.0 per cent to 1.4 per cent in the US.

For clothing, both export and import shares for the EU and US have risen, although import shares have risen more (see Table 2.4).

The migration of the clothing industry within Asia — for example, from Taiwan and Korea to China and Thailand — is particularly evident from the export

### Table 2.3: Textile exports and imports as shares of total merchandise trade, 1980 and 1995 (current dollars)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th></th>
<th>Imports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1980 (%)</td>
<td>1995 (%)</td>
<td>1980 (%)</td>
<td>1995 (%)</td>
</tr>
<tr>
<td>China</td>
<td>14.0</td>
<td>9.4</td>
<td>5.5</td>
<td>8.3</td>
</tr>
<tr>
<td>Taiwan</td>
<td>9.0</td>
<td>10.7</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Hong Kong (domestically produced exports; gross imports)</td>
<td>6.6</td>
<td>6.1</td>
<td>12.9</td>
<td>8.6</td>
</tr>
<tr>
<td>Hong Kong (re-exports; retained imports)</td>
<td>13.0</td>
<td>8.3</td>
<td>12.9</td>
<td>9.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.2</td>
<td>6.2</td>
<td>2.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Japan</td>
<td>3.9</td>
<td>1.6</td>
<td>1.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Korea</td>
<td>12.6</td>
<td>9.8</td>
<td>1.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.2</td>
<td>1.5</td>
<td>2.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Singapore (domestically produced; gross imports)</td>
<td>1.1</td>
<td>0.4</td>
<td>3.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Singapore (re-exports; retained imports)</td>
<td>3.3</td>
<td>2.5</td>
<td>3.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.1</td>
<td>3.6</td>
<td>1.9</td>
<td>2.5</td>
</tr>
<tr>
<td>EU (12)</td>
<td>3.7</td>
<td>3.0</td>
<td>2.0</td>
<td>2.9</td>
</tr>
<tr>
<td>US</td>
<td>1.7</td>
<td>1.3</td>
<td>1.0</td>
<td>1.4</td>
</tr>
</tbody>
</table>

³ Export and import values, and percentage share calculations, are all in nominal values.

---

**Source:** WTO 1995a and WTO 1996a

---

³ Or nearest year

b Includes significant exports from processing zones (see table note a to Table 2.1 for further details).

c See table note c to Table 2.1 and table note b to Table 2.2.

d Excludes intra-EU trade. Data for 1995 refer to EU(15) expanded to include Austria, Finland and Sweden.
Table 2.4: Clothing exports and imports as shares of merchandise trade, 1980 and 1995 (current dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th></th>
<th>Imports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1980 (%)</td>
<td>1995 (%)</td>
<td>1980 (%)</td>
<td>1995 (%)</td>
</tr>
<tr>
<td>China b</td>
<td>8.9</td>
<td>16.2</td>
<td>np</td>
<td>np</td>
</tr>
<tr>
<td>Taiwan</td>
<td>12.3</td>
<td>2.9</td>
<td>0.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Hong Kong (domestically prod.)</td>
<td>34.1</td>
<td>31.9</td>
<td>3.0</td>
<td>6.5</td>
</tr>
<tr>
<td>Hong Kong (re-exports)</td>
<td>4.7</td>
<td>8.2</td>
<td>2.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.4</td>
<td>7.4</td>
<td>np</td>
<td>np</td>
</tr>
<tr>
<td>Japan</td>
<td>0.4</td>
<td>0.1</td>
<td>1.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Korea</td>
<td>16.8</td>
<td>4.0</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.2</td>
<td>3.1</td>
<td>np</td>
<td>np</td>
</tr>
<tr>
<td>Singapore (domestically prod.)</td>
<td>2.8</td>
<td>0.8</td>
<td>0.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Singapore (re-exports)</td>
<td>1.1</td>
<td>1.8</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>4.1</td>
<td>8.2</td>
<td>np</td>
<td>np</td>
</tr>
<tr>
<td>EU (12) d</td>
<td>1.6</td>
<td>1.9</td>
<td>2.4</td>
<td>5.9</td>
</tr>
<tr>
<td>US</td>
<td>0.6</td>
<td>1.1</td>
<td>2.7</td>
<td>5.4</td>
</tr>
</tbody>
</table>

np: Not published by the WTO.
a: Or nearest year.
b: Includes significant exports from processing zones (see table note a to Table 2.1 for further details).
c: See table note b to Tables 2.1 and 2.2.
d: Includes intra-EU trade.
Source: WTO 1995a and WTO 1996a

shares data in Table 2.4. All economies for which data are available (except Hong Kong) have experienced an increase in clothing imports as a share of total merchandise imports.

### 2.2.2 Changes in employment

A major adjustment within global TCF manufacturing industries has been reduced employment in developed countries and increased employment in developing countries (see Table 2.5). Data are presented in Table 2.5 for the major developed TCF countries of the G7 group and the Asian-6 countries, together with corresponding figures for Australia. A number of smaller countries...

---

4 The data refer to ‘formal employment’. This does not include homeworkers, who are difficult to define and measure (see Chapter 3 and Appendix D for further details).
developed countries also experienced declines in TCF employment. Between 1980 and 1993, the following declines occurred — Finland (72 per cent); Sweden (65 per cent); Norway (65 per cent); Austria (52 per cent); Netherlands (42 per cent); New Zealand (41 per cent) and Spain (35 per cent).\(^5\)

In 1980, the number of TCF workers was divided about equally between the G7 countries and the Asian-6 countries, with about 6 million in each group (see Table 2.5). By 1992, however, TCF workers in the Asian-6 out-numbered those in the G7 countries by two to one. As compared with 1980, there were approximately 1.7 million fewer TCF workers in the G7 countries and 2.4 million additional workers in the Asian-6. This change in the global distribution of TCF manufacturing employment was dominated by the increase of 2 million in the number of Chinese TCF workers between 1980 and 1992.

Over the same period, the ILO data indicate that the number of TCF workers in Australia had declined by 40 000 or 34.5 per cent. This percentage decline is broadly similar to that experienced in the developed countries of the G7 group, but significantly less than that of several other smaller developed countries (see Table 2.5 and percentage employment declines above). The decline in Japan was relatively small.

2.3 Adjustment responses in developed countries

In the past, governments and TCF industries in developed countries have responded to TCF adjustment pressures with four major strategies. The first has been to provide government support by means of industry protection or direct subsidy. The most important means of delivering industry protection has been the Multifibre Arrangement (MFA). The MFA provided protection by establishing a mechanism to negotiate bilateral quantitative restrictions on textile and clothing exports from developing countries. Direct subsidies have been provided in the form of general industry assistance programs, research and development programs and regional development programs.

A second adjustment strategy in response to the pressures from imports has been to reduce production costs, largely through greater use of capital, restructuring of enterprises and commercial relationships, and an increase in labour

\(^5\) These percentage declines in employment were reported in the *Washington Post*, 28 December, 1996, p. A17, citing the International Labour Organisation.
Table 2.5: Formal TCF manufacturing employment, 1980 to 1992

<table>
<thead>
<tr>
<th>Country</th>
<th>1980 (’000s)</th>
<th>1992 (’000s)</th>
<th>Change 1980-92 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>116.0 a</td>
<td>76.0 a</td>
<td>-34.5</td>
</tr>
<tr>
<td>G7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>206.0</td>
<td>147.0</td>
<td>-28.6</td>
</tr>
<tr>
<td>France</td>
<td>609.4</td>
<td>358.4</td>
<td>-41.2</td>
</tr>
<tr>
<td>Germany</td>
<td>600.0</td>
<td>361.9</td>
<td>-39.7</td>
</tr>
<tr>
<td>Italy</td>
<td>541.0</td>
<td>460.6</td>
<td>-14.9</td>
</tr>
<tr>
<td>Japan</td>
<td>1 216.0</td>
<td>1 108.0</td>
<td>-8.9</td>
</tr>
<tr>
<td>UK</td>
<td>688.0</td>
<td>407.0</td>
<td>-40.8</td>
</tr>
<tr>
<td>US</td>
<td>2 281.0</td>
<td>1 628.2</td>
<td>-28.6</td>
</tr>
<tr>
<td>Sub-total G7</td>
<td>6 141.4</td>
<td>4 471.1</td>
<td>-27.2</td>
</tr>
<tr>
<td>Asian-6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>3 281.0</td>
<td>5 280.0</td>
<td>60.9</td>
</tr>
<tr>
<td>India</td>
<td>1 771.0</td>
<td>1 545.0</td>
<td>-12.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>252.9</td>
<td>703.2</td>
<td>178.1</td>
</tr>
<tr>
<td>Korea</td>
<td>601.8</td>
<td>661.8</td>
<td>10.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>63.3</td>
<td>122.1</td>
<td>92.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>248.6</td>
<td>323.7</td>
<td>30.2</td>
</tr>
<tr>
<td>Sub-total Asian-6</td>
<td>6 218.6</td>
<td>8 635.8</td>
<td>38.9</td>
</tr>
<tr>
<td>Total G7 plus Asian-6</td>
<td>12 360.0</td>
<td>13 106.9</td>
<td>6.0</td>
</tr>
</tbody>
</table>

a Although the ILO does not acknowledge the source of their data, these figures appear to be consistent with ABS Manufacturing Industry Survey estimates for ANZSIC 22, excluding leather and leather products (ANZSIC 226).

Source: ILO 1996a

productivity. However, growth in labour productivity in the EU and the US has not been sufficient to reduce their production costs to the extent necessary to match the competitiveness of imports in many areas — particularly the ‘commodity’ end of the spectrum. Consequently, firms have sought to specialise in areas of comparative strength (for example, design, quality and marketing), while using low labour cost countries for an increasing proportion of their manufacturing operations.

The modification of individual business practices has involved mainly the autonomous actions of individual firms, sometimes with financial assistance from governments. Two sharply contrasting business strategies which have
been tried in a number of developed countries are described in a World Bank Working Paper — these strategies have differed according to firm size.

Most larger producers have attempted to adjust by increasing capital intensity, sharpening product standardization, and emphasizing volume of production. They have attempted economies of scale through vertical and horizontal integration and standardization and to reduce labour costs by using ultra-modern spinning and weaving technology. An alternative approach, followed by medium-sized firms, has been in an almost opposite direction. Instead of focusing on volume, these firms have sought to produce limited quantities of outputs with a heavy quality, design, and marketing emphasis. However, these firms also have introduced higher automation into their processing to avoid high labour costs.

Of these two strategies, the former appears to have been less successful. The high volume/standard product strategy based on extensive automation has simply not been able to reduce labour costs enough to compete with Asian exports. The diffusion of new machines to competitors is fairly rapid, and hence, the advantage gained is short lived. Furthermore, domestic wage costs have continued to rise. The alternative strategy of the medium-sized firms has been more successful because it has exploited comparative advantage. This is based on the availability of good designers, the nearness to a consumer market in which quality is demanded and fashions change quickly, and marketing ability in a market where needs must be created through advertising and satisfied through quick service. (Pepper and Bhattacharya 1991, Annex B)

A third strategy has been for governments to provide assistance to facilitate labour adjustment. These measures have typically focused on labour mobility and its enhancement by means of re-training or re-location assistance.

The fourth adjustment strategy has been to support research and product development within firms as a means of increasing their competitiveness.

The mix of adjustment strategies pursued by governments and firms has varied between developed countries. The adjustment experiences of a few developed countries are outlined briefly below.

United States

Adjustment assistance in the US has been confined generally to programs for labour adjustment, first established under the Trade Expansion Act 1962 but with limited funding (Cline 1987, p. 108). Cline observed that these programs reached their peak funding level of $US 2.2 billion (or $US 4,400 per assisted worker) in 1980, but were reduced subsequently under the Reagan Administration. In 1996, the WTO noted that “Direct subsidies are not an element of substantial assistance to the sector”, assistance being limited to a
small amount of government support for collaborative research with industry in the textiles and clothing sector (WTO 1996b, p. 128). 6

During the 1990s, job losses continued in the US textile and apparel industries (WTO 1996b, Table IV.12). A recent review of the US textile and clothing industries concluded as follows:

The US producers covered by this investigation do not seem to be able to claim any intrinsic advantage in the way of technical expertise and design capability and the need for quick response is not operating quite the way that was expected. Costs of production are still the dominating factor determining trade within the present MFA framework. US labour productivity and machine utilisation is high and she is competitive with high wage European countries but her high productivity is not sufficient to offset her high labour costs in relation to developing countries; the disparity is greater the greater the labour intensity of production; therefore it is particularly true in apparel manufacture. (Moore 1995, p. 601)

**European Union**

Among the member countries of the EU, Cline documented a range of adjustment policies which were adopted in the 1970s and 1980s:

Governments have provided investment assistance for rationalisation plans (United Kingdom, Netherlands, France, Belgium, and Italy in the late 1970s). They have provided concessional loans for investment (Netherlands, France).

The EC Commission has sponsored sector programs to limit capacity (as in synthetic fibres in 1977). National governments have offered programs of retraining and technical assistance (United Kingdom, France). The EC Commission and national governments have sponsored common programs of research and development .... Governments have adopted labour mobility programs ... offered loans or grants to maintain employment ... undertaken regional investment in infrastructure and aid to depressed regions ... (Cline 1987, pp. 131–132)

Since 1993, the EU, in addition to general industrial and regional assistance programs, has had in place a program to promote economic diversification in regions with a high concentration of textiles and clothing enterprises (mainly in Greece, Portugal and Spain). No specific programs have been established in response to the phasing out of the Multi-Fibre Arrangement (WTO 1995b, p. 132).

---

6 This support has been notified to the WTO Committee on Subsidies and Countervailing Measures.
United Kingdom

The UK adjustment strategy has been to pursue two approaches — firm enlargement to achieve economies of scale, and employment subsidies. In the 1960s, the two largest producers of man-made fibres in the UK (Courtauld and ICI) pursued a re-structuring strategy involving acquisitions and enlargement to achieve economies of scale through mass production of standardised items. According to Cline:

> By the early 1970s it was becoming evident that the merger strategy was not successful, as it diverted attention from specialisation and marketing and led to overcapacity. (Cline 1987, p. 134)

The second approach in the UK was a Temporary Employment Subsidy (TES) of £20 Sterling per week for 200,000 workers, half of them in the textile and apparel industries (equal to about 10 per cent of the sectors’ employment). According to Cline:

> The net effects of the TES were ambiguous, but there was evidence that firms that saw their future as tied to capital-intensive production went ahead with dismissals rather than seeking the subsidies, while subsidised firms often had to dismiss workers once the subsidies ended. (Cline 1987, p. 134)

Cline also cited a study by the US Department of Commerce which suggested that although enterprise consolidation had continued in the UK, productivity in that country was only half that in the US. Pepper and Bhattacharya drew the following conclusions about the adjustment strategies in the UK:

> Although much scrapping, re-equipping, merging and rationalizing have occurred, and productivity has increased greatly, the intervention program must be judged a failure. The industry has still not been rendered viable — there remains continuing pressure to retain and even to extend trade protection and other forms of assistance. Under cover of protection, the industry has become concentrated, it has laid off workers, and many companies have moved away from textiles into non-textile areas. The industry has not been rejuvenated through adjustment: it has been changed. The costs of financing this change have been high. This type of adjustment, with its emphasis on process technology and lowering unit costs, may distract from more viable or efficient forms of adjustment, such as the ones noted for West Germany and Italy. (Pepper and Bhattacharya, 1991, Annex B)

Italy

The Italian experience is of special interest because although it is a high wage country its TCF industries have continued to prosper and it is one of the few developed countries to have broadly maintained its importance in international TCF trade (see Figures 2.2 and 2.3). Cline argued that the government had intervened heavily in the case of large Italian firms (by means of direct state
acquisition and by the provision of subsidies) but that small firms had been the most successful in Italy (Cline 1987, p. 135). He suggested that small firms have had access to low cost labour (especially through homeworking) and have avoided high labour costs imposed on large firms by legislation and labour unions. Further, this had outweighed any scale economies, which in any event were limited for operations which are difficult to mechanise.

**Germany**

Apart from the MFA, the German Federal Government has adopted a non-interventionist position toward the textile and clothing industries. However, more direct assistance has come from banks, which often had equity positions (in addition to loans) in textile corporations and thus had an incentive to help firms survive (Pepper and Bhattacharya 1991). Provincial governments have provided subsidies to support regional employment objectives (Cline 1987). A major part of Germany’s response to import competition was to sub-contract via outward processing arrangements with the former East Germany and other East European countries. In addition, labour adjustment out of TCF has been facilitated by the ability to reduce the number of foreign guest workers.

Pepper and Bhattacharya concluded:

> The chief lesson of the West German experience is that adjustment support to the industry segment that had lost comparative advantage was unsuccessful, whether this support was government-sponsored or private bank-sponsored. West Germany has not been able to re-establish competitiveness in standardised textiles. It has been successful in precisely those market segments where, even without trade protection, further growth would have taken place. (Pepper and Bhattacharya 1991, Annex B)

**Japan**

The Japanese textile and clothing industries are characterised by a small-firm structure with, for example, 47,000 textile establishments in Japan in the early 1980s, compared with 6600 in the US and 2900 in Italy (Cline 1987). The Japanese Government’s response to the decline in Japan’s competitiveness involved a two-pronged approach. The Government provided financial support, which involved a high level of government–business cooperation directed at industry restructuring, while simultaneously reducing trade protection. Japan did not follow the protectionist route favoured by many other developed countries. The Japanese approach to adjustment has been described by Pepper and Bhattacharya as follows:

> The Japanese began feeling the pinch of competition in the textile business toward the end of the 1960s ... as the East Asian trio (including Korea, Taiwan
and Hong Kong) virtually ousted it from some segments of the market, particularly those characterised by labour-intensity (for example, apparel and/or standardised yarns and lower-grade fabrics). Identifying a secular rise in real wages as being the main cause of declining comparative advantage, the Japanese authorities undertook a series of measures to prod as well as assist the industry into adjusting in the direction of greater knowledge-intensity and higher productivity.

The prodding came in the form of trade policy that gradually liberalized the import of textiles even against industry opposition. Textile tariffs were substantially reduced through the 1970s ... Quota restrictions have also been substantially reduced, and Japan now compares favourably in this regard with the US and the EEC. However, while pressure was maintained on the domestic industry through trade liberalization, adjustment assistance was also offered. (Pepper and Bhattacharya 1991, Annex B)

The Japanese Government focused on scrapping outdated and excess capacity. In the early 1970s, well over ¥100 billion ($US 400 million) was provided for programs to purchase and scrap redundant capacity (Cline 1987, p. 137). The 1979 law for ‘Structural Improvement to the Textile Industry’ provided additional adjustment assistance for textile and clothing manufacturers to work together on research and product development, as well as assistance for vertical integration and conversion into non-textile business. For the many small firms, the 1979 law provided tax and financial incentives to enter into vertical cooperation projects under MITI (Ministry of International Trade and Industry) guidelines. Cline has argued that most observers judged the Japanese adjustment effort to have been successful because of government intervention and the actions of firms themselves (Cline 1987). Japanese firms made deliberate decisions to upgrade and streamline production and pursued shifting comparative advantage by investing abroad and moving their production facilities to Korea, Taiwan, ASEAN and China, while continuing to supply these offshore plants with synthetic fibres produced in Japan.

Pepper and Bhattacharya summarised the outcomes of this program of adjustment as follows:

- **First,** the knowledge-intensive sector of the industry has grown and prospered. Government support for R&D and the industry’s move into R&D-intensive products appear to have paid off. ... **Second,** the labour-intensive segment of the industry (primarily apparel) has shrunk domestically and has virtually disappeared from overseas export markets. ... **Third,** the mass-producing yarn and fiber makers either have diversified out of the textile business or have moved offshore. ... **Fourth,** small and medium-sized firms have moved into the production of high-quality high value-added items. ... In overall terms, the industry has shrunk in terms of output, employment, and exports, all of which peaked in the early 1970s. However, the reduction in size and relative importance has been managed without serious economic or social dislocation,
and there is certainly no sense of a permanent and continuing malaise concerning this sector in Japan as there is, for example, in several OECD countries. (Pepper and Bhattacharya 1991, Annex B)

2.4 Conclusion

Major changes are continuing to occur in the location of TCF manufacturing and in the pattern of trade in TCF products, as producers seek to reduce their costs by moving labour-intensive activities to low labour cost countries. Employment in TCF manufacturing has fallen in virtually all developed countries.

TCF industries and developed country governments have used a range of actions in an attempt to address fundamental shifts in comparative advantage in TCF production. These actions have included a mixture of protection against imports and adjustment to increased use of imports.
PART B

LABOUR MARKET AND MICROECONOMIC REFORM

3 Labour market issues

4 Adjustment issues

5 Taxation and regulation issues
3 LABOUR MARKET ISSUES

3.1 Introduction

The ability of TCF enterprises to adjust successfully to an increasingly competitive environment depends in large part on the skills and flexibility of their workforce and management. The characteristics of incumbent workers also have a significant influence on workers’ ability to adjust to further restructuring that is likely to occur.

This Chapter discusses a range of labour market issues relevant to the TCF industries. Significant changes have occurred in the TCF manufacturing labour force over the past decade. Total formal manufacturing employment has fallen, while that in TCF retailing and wholesaling has increased, and the mix of skills required by the industries has changed. These issues are discussed in Section 3.2 and Appendix C. The industries have been restructuring, modernising and seeking flexibility in a range of areas, which has caused pressure for change in several areas of the labour market.

Rigidities in labour market practices and the institutional arrangements behind them have been highlighted over the past decade (see Section 3.3). Also, the training infrastructure servicing the industries has been criticised for not keeping up with the changing demands of industry (see Section 3.4). There has been an increasing awareness of the prevalence of homeworking as a form of employment, which raises a range of regulatory and social issues (discussed in Section 3.5 and Appendix D).

The fall in aggregate TCF manufacturing employment has highlighted the general importance of workplace mobility. Governments have used a range of mechanisms to try to increase the mobility of labour, with varying degrees of success. These issues are discussed in Chapter 4.

3.2 Employment trends and characteristics of the workforce

Official ABS statistics indicate that TCF manufacturing employment was around 103 500 persons in 1997. This represented about 9 per cent of total manufacturing employment and just over 1 per cent of employment in the economy as a whole (see Appendix C for further information).
This figure, however, is likely to underestimate the total size of TCF manufacturing employment as most homeworkers are not counted in these statistics. The informal and intermittent nature of homework, the often very limited English language skills among these workers and the ‘arm’s length’ relationship which typically exists between homeworkers and the companies for whom they are undertaking work make it difficult to gauge the extent of homeworking. The information presented below relates to formal employment as recorded by the ABS.  

3.2.1 Changes in TCF manufacturing employment

Employment in TCF manufacturing declined by 12 per cent, or around 13 400, between May 1985 and May 1996. Over the same period, total manufacturing employment stayed about the same, and the economy as a whole exhibited a growth in employment of more than 26 per cent (see Figure 3.1). Most of the decline in TCF employment occurred between May 1989 and May 1992. This was a period of economic recession and weakness in employment generally in Australia.

![Figure 3.1: TCF manufacturing employment, May 1985 to May 1997](image)

Note: Data only available for the month of May in the stated years.

Source: Unpublished ABS Labour Force Survey data

---

1 There are two official TCF employment measures — the labour force survey and the manufacturing industry survey. This employment figure is the labour force statistic. Appendix C, Section C.1, discusses the difference between the two surveys.
Overall, the decline in recorded TCF manufacturing employment continues a downward trend that has been evident since the 1960s, when TCF employment was around 180,000. Substantial increases in protection between the early 1970s and the mid-1980s did not prevent this contraction in employment.

Employment trends across TCF manufacturing industries over the past decade varied significantly, broadly reflecting the changes in output levels described in Chapter 1. The largest reduction in TCF formal manufacturing jobs occurred in the clothing industry, where there was a decline of 12,900, or 21 per cent, from May 1985 to May 1997. The largest proportionate decreases were in knitting mills, textile fibre, yarn and woven fabric manufacturing and footwear manufacturing. In contrast, employment in other areas grew significantly, albeit from a low base. For example, total employment in the textile product manufacturing industry grew by 72 per cent from 1985 to 1997 (see Table 3.1 and Appendix C).

Table 3.1: TCF manufacturing employment, by industry, May 1985 to May 1997

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile fibre, yarn and woven fabric mfg (221)</td>
<td>20.3</td>
<td>15.5</td>
<td>15.3</td>
<td>14.2</td>
<td>11.1</td>
<td>11.6</td>
<td>-42.9</td>
</tr>
<tr>
<td>Textile product mfg (222)</td>
<td>12.6</td>
<td>15.3</td>
<td>15.2</td>
<td>17.0</td>
<td>17.6</td>
<td>21.7</td>
<td>72.2</td>
</tr>
<tr>
<td>Knitting mills (223)</td>
<td>8.2</td>
<td>10.2</td>
<td>9.9</td>
<td>9.0</td>
<td>4.0</td>
<td>3.7</td>
<td>-54.9</td>
</tr>
<tr>
<td>Clothing mfg (224)</td>
<td>62.2</td>
<td>59.9</td>
<td>51.2</td>
<td>52.6</td>
<td>51.2</td>
<td>49.3</td>
<td>-20.7</td>
</tr>
<tr>
<td>Footwear mfg (225)</td>
<td>9.7</td>
<td>10.6</td>
<td>7.3</td>
<td>9.0</td>
<td>7.0</td>
<td>7.0</td>
<td>-27.8</td>
</tr>
<tr>
<td>Leather and leather product mfg (226)</td>
<td>3.8</td>
<td>5.5</td>
<td>3.7</td>
<td>7.3</td>
<td>5.0</td>
<td>10.2</td>
<td>168.4</td>
</tr>
<tr>
<td>All TCF (22)</td>
<td>116.9</td>
<td>117.0</td>
<td>102.6</td>
<td>109.1</td>
<td>95.9</td>
<td>103.5</td>
<td>-11.5</td>
</tr>
<tr>
<td>All manufacturing</td>
<td>1 127.8</td>
<td>1 165.0</td>
<td>1 099.1</td>
<td>1 112.1</td>
<td>1 103.8</td>
<td>1 128.1</td>
<td>0.0</td>
</tr>
<tr>
<td>All industries</td>
<td>6 657.9</td>
<td>7 354.8</td>
<td>7 703.7</td>
<td>7 879.1</td>
<td>7 632.7</td>
<td>8 389.3</td>
<td>26.0</td>
</tr>
</tbody>
</table>

Note: Figures in italics have Relative Standard Errors greater than 25 per cent.
Source: Unpublished ABS Labour Force Survey data

Despite the overall decline from 1985 to 1997, TCF manufacturing employment increased by 7,600 from 1996 to 1997. The major component of the increase was due to the increased employment in the leather industry — 5,200 jobs. However, given the relatively small size of the industry the relative standard error in the leather employment estimate is large. Leather employment in 1997 could be anywhere between 6,900 and 13,300 once the standard error is accounted for. Anecdotal evidence suggests that the ABS estimates are inflated.
for the leather industry. For example, the Australian Leather Industries Association stated that:

... only 2,000 and not 5,000 are now [1996] employed in the leather industry itself. ...

Whatever is true for this composite figure, this is not the correct conclusion for the leather tanning and finishing industry itself. (sub. 229, p. 5)

While the TCF manufacturing employment figures reflect changes in formal manufacturing employment, several participants claimed that the amount of work put out to homeworkers, in the clothing industry especially, has increased. As discussed in Section 3.5, while there are several factors which would appear to have given rise to such an increase, the lack of data makes it impossible for the Commission to reach firm conclusions on this matter.

A proportion — probably small — of the apparent reduction in formal TCF manufacturing employment may represent a statistical reclassification of some workers, rather than an actual loss of employment. For example, a company manufacturing clothing in Australia will employ a number of staff not directly involved in manufacturing, but who perform warehousing and distribution functions. If such a company ceases to manufacture clothing in Australia and imports all of its requirements, it is still likely to employ such staff, although these people will be reclassified in the official statistics from employment in ‘TCF manufacturing’ to employment in ‘TCF wholesaling’. A similar reclassification will occur if a manufacturing firm which previously undertook its own warehousing and distribution, now engages a contractor to distribute and/or warehouse. On the other hand employees of a firm which substitutes importing for some of its manufacturing are likely all to be classified as “manufacturing” even though some are engaged in handling imports.

In May 1997, TCF wholesaling, importing and retailing employed close to 152,000 persons and accounted for about 9 per cent of total employment in all wholesaling and retailing industries and 2 per cent of total national employment. Between May 1985 and May 1997, TCF distribution employment expanded by close to 9,000 (6 per cent), less than the economy and total wholesaling and retail which each expanded by about 22 per cent, but by more than the fall in TCF manufacturing employment.

Figure 3.2 shows the relative growth in TCF distribution employment as compared to the decline in TCF manufacturing employment.

The aggregate reduction in measured manufacturing employment has been concentrated in areas of low skill. The total number employed in jobs not
Table 3.2: TCF distribution employment, May 1985 to May 1997

<table>
<thead>
<tr>
<th></th>
<th>1985 ('000)</th>
<th>1988 ('000)</th>
<th>1991 ('000)</th>
<th>1994 ('000)</th>
<th>1997 ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing and Soft Good Retailing (552)</td>
<td>38.4</td>
<td>42.6</td>
<td>42.0</td>
<td>45.0</td>
<td>42.9</td>
</tr>
<tr>
<td>Department Stores (521)</td>
<td>90.0</td>
<td>97.4</td>
<td>83.7</td>
<td>85.3</td>
<td>84.1</td>
</tr>
<tr>
<td>Textile, Clothing and Footwear Wholesaling (472)</td>
<td>14.6</td>
<td>17.8</td>
<td>21.7</td>
<td>22.3</td>
<td>24.6</td>
</tr>
<tr>
<td>Total TCF distribution employment</td>
<td>142.9</td>
<td>157.8</td>
<td>147.4</td>
<td>152.5</td>
<td>151.6</td>
</tr>
</tbody>
</table>

Note: ANZSIC industries 521 and 522 were adjusted for the relative importance of TCF in these ANZSICs. The coverage ratios adopted were 47 and 87 per cent, respectively (IAC 1986b, p. H.35). These ratios were considered appropriate by the Retailers Association of Australia.

Source: Unpublished ABS Labour Force Survey data

requiring formal qualifications (ASCO 4 to 8)\(^2\) fell by 22 700 from May 1987 to May 1996, a reduction of 26 per cent. In contrast, the corresponding reduction in jobs requiring formal training was only 1 per cent. In part, this reflects the

---

\(^2\) Australian Standard Classification of Occupations (ASCO)
large reduction in clothing manufacturing employment, which continues to have a relatively low skill profile. It also reflects the adoption of more sophisticated production techniques across the TCF industries.

As the proportion of females employed in the low skilled areas is high, there has been a sharp reduction in the total number of women counted as employed in TCF manufacturing industries. Total female formal employment fell by 18,600, or about 23 per cent, from May 1985 to May 1997. Much of this reduction was accounted for by a reduction of female workers in the clothing manufacturing industry. Conversely, total male employment in TCF industries grew by 14 per cent, or 5,400, over the same period.

Geographically, the pattern of change in TCF manufacturing employment varied between the States. Victoria experienced the greatest decline in employment between 1985 and 1997, with more than 14,300 (24 per cent) of TCF manufacturing jobs lost — the majority of this decline was in clothing. On the other hand, TCF manufacturing employment in NSW grew by 2,400 (more than 7 per cent) to reach 9,700 in 1997.

Although TCF manufacturing employment for Australia as a whole declined between May 1985 and May 1997, there was some variation between regional and metropolitan centres. While metropolitan employment declined by close to 16,000 formal jobs, 2,500 new TCF manufacturing jobs were created in the regional centres. The growth was not distributed evenly. Some non-metropolitan regions experienced growth and others experienced significant declines in employment. For example, Victorian regional TCF manufacturing employment declined by 33 per cent, from 11,000 in May 1985 to 7,400 in May 1997. In the North Eastern Victorian Region, which includes the cities of Albury, Wodonga, Wangaratta and Benalla, TCF employment has declined by more than 1,000 (or 37 per cent) between 1984 and 1996 (Companies and Community of North Eastern Victoria and Albury, sub. 37). By contrast, between May 1985 and May 1997, NSW regional employment increased from 7,400 to 10,300 (39 per cent) and Queensland regional employment increased from 2,200 to 4,900 (123 per cent).

3.2.2 Distribution of TCF manufacturing employment

ABS statistics indicate that production of clothing is currently by far the biggest employer of all the TCF industries, accounting for 47 per cent of the formal TCF labour force. The actual level of employment (formal and informal) is likely to be higher as homeworking is concentrated in clothing manufacturing (see Section 3.5).
Figure 3.3 shows the distribution of employment in the TCF industries.

Although TCF manufacturing occurs in all States, around three quarters is in Victoria (44 per cent) and New South Wales (35 per cent) combined, with a further 9 per cent in Queensland (see Figure 3.4).

Contrary to common perception, TCF manufacturing employment is more concentrated in metropolitan areas than is manufacturing employment as a whole. About 75 per cent of TCF manufacturing employment is located in capital cities (primarily Melbourne and Sydney). This compares with around 70 per cent for all manufacturing and around 64 per cent for all industries. If it were possible to include TCF homeworking in these statistics, the proportion of TCF manufacturing employment located in capital cities would be higher still, since the majority of TCF homeworkers are located in and around Melbourne and Sydney (see Section 3.5 and Appendix D).

Figure 3.3: Distribution of formal TCF manufacturing employment, 1997

In May 1997, measured TCF manufacturing employment represented 9.2 per cent of all manufacturing employment and 1.2 per cent of total employment in Australia (see Table 3.3 and Appendix C). These proportions were higher in Victoria. For example, in the greater Melbourne metropolitan area, measured TCF manufacturing employment accounted for 13.7 per cent of
all manufacturing employment and 2.5 per cent of total employment. Further, within the metropolitan area, employment is concentrated in areas such as the Cities of Moreland, Darebin and Whittlesea, where TCF manufacturing account for 4.2, 5.7 and 6.3 per cent, respectively, of total employment (subs. 184, 178 and 240).

In non-metropolitan Victoria, TCF employment accounts for 10.9 per cent of all manufacturing employment and 1.4 percent of total employment. Outside Melbourne, Victorian TCF manufacturing employment was concentrated in the Barwon-Western District and Goulburn-Ovens-Murray regions. In the Goulburn-Ovens-Murray region, TCF manufacturing employment provided just over 2 per cent of total employment (ABS Labour Force Survey, May 1997, unpublished data), although in Wangaratta itself, information presented to the inquiry indicated that TCF employment accounted for as much as 15 per cent of total local employment (Companies and Community of North Eastern Victoria and Albury sub. 37).
Table 3.3: Location of TCF manufacturing employment, May 1997

<table>
<thead>
<tr>
<th></th>
<th>TCF Employment</th>
<th>% of State TCF Employment</th>
<th>% of Australian TCF employment</th>
<th>TCF as proportion of Employment in Region(^a) (All Industries)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>('000)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
</tr>
<tr>
<td>NSW</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>metro</td>
<td>26.0</td>
<td>71.6</td>
<td>25.1</td>
<td>1.4</td>
</tr>
<tr>
<td>other</td>
<td>10.3</td>
<td>28.4</td>
<td>10.0</td>
<td>1.1</td>
</tr>
<tr>
<td>VIC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>metro</td>
<td>38.5</td>
<td>83.9</td>
<td>37.2</td>
<td>2.5</td>
</tr>
<tr>
<td>other</td>
<td>7.4</td>
<td>16.1</td>
<td>7.1</td>
<td>1.4</td>
</tr>
<tr>
<td>QLD</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>metro</td>
<td>4.9</td>
<td>50.0</td>
<td>4.7</td>
<td>0.7</td>
</tr>
<tr>
<td>other</td>
<td>4.9</td>
<td>50.0</td>
<td>4.7</td>
<td>0.6</td>
</tr>
<tr>
<td>WA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>metro</td>
<td>2.6</td>
<td>96.3</td>
<td>2.5</td>
<td>0.4</td>
</tr>
<tr>
<td>other</td>
<td>0.1</td>
<td>3.7</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>SA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>metro</td>
<td>5.3</td>
<td>74.6</td>
<td>5.1</td>
<td>1.1</td>
</tr>
<tr>
<td>other</td>
<td>1.8</td>
<td>25.4</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
<td>TAS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>metro</td>
<td>0.6</td>
<td>40.0</td>
<td>0.6</td>
<td>0.7</td>
</tr>
<tr>
<td>other</td>
<td>0.9</td>
<td>60.0</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>NT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>total</td>
<td>0.1</td>
<td>..</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>ACT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>total</td>
<td>0.1</td>
<td>..</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Australia</td>
<td>metro</td>
<td>77.9</td>
<td>..</td>
<td>75.3</td>
</tr>
<tr>
<td></td>
<td>other</td>
<td>25.6</td>
<td>..</td>
<td>24.7</td>
</tr>
<tr>
<td>total</td>
<td>103.5</td>
<td>..</td>
<td>100.0</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Note: ‘Metro’ includes the greater metropolitan areas of the capital cities — Sydney, Melbourne, Brisbane, Perth, Adelaide and Hobart. ‘Other’ includes all areas of the States outside these city areas.

The ABS advises that Labour Force Survey estimates below 4000 have relative standard errors greater than 25 per cent.

a For example, measured TCF manufacturing employment represents 1.2 per cent of total employment in the NSW metro area.

Source: Estimates based on unpublished ABS Labour Force Survey data

TCF manufacturing is a relatively large employer in regional NSW — at about 10 000 formal jobs. In its submission to this inquiry, the Government of NSW cites the Hunter, Illawarra, Central West and Northern regions of NSW as having ‘significant businesses’ in the TCF industries. Within these regions, TCF manufacturing employment is located in the cities, such as Wollongong, Newcastle, Wagga Wagga and other smaller centres (sub. 162, p. 2–3). While 28 per cent of NSW’s formal TCF manufacturing employment is outside the
Sydney metropolitan area, this employment represents only 1 per cent of total NSW employment outside greater Sydney (see Table 3.3).

3.2.3 Workforce characteristics

Workforce characteristics provide an indication of the ability of incumbent employees to adjust to structural change. For example, younger, single employees are generally more geographically mobile than older, married employees. Similarly, employees with good general (including English language) and vocational skills tend to be more mobile than those without such skills.

In general, TCF manufacturing workers tend to be lower paid and have less formal education than do employees in other sectors of the economy. They are also more likely to be older, female and born in non-English speaking countries than the workforce in all manufacturing or the economy as a whole. However, there are some differences across TCF industries — for example, in leather and leather product manufacturing most workers are male.

In May 1996, about 57 per cent of the TCF manufacturing workforce was employed in relatively low skilled jobs — plant and machine operation and labouring (see Figure 3.5). This figure is high relative to the 39 per cent employed in low skilled jobs for all manufacturing and about 22 per cent for the whole economy.

On average employees in the TCF industries work longer hours than workers in manufacturing generally, but earn less — they also earn less than employees in the economy as a whole. However, there is some variation in hours worked and average earnings between the industries. For example, in May 1996, those in the leather and leather product industry earned on average $12.47 per hour, compared with $15.72 per hour in the textile product industry. This compared with an average of $16.25 per hour for manufacturing and $16.87 per hour for the economy as a whole. In sum, these relatively low hourly rates reflect the larger proportion of low skilled workers in TCF manufacturing and particularly in clothing manufacturing (See Appendix C, Tables C17 and C18)

A large percentage of people employed in the TCF manufacturing industries are from non-English speaking backgrounds (NESB). In May 1997, about 49 per cent of the TCF manufacturing workforce were born overseas, of whom about 84 per cent came from non-English speaking countries. (See Appendix C, Table C11) Participants have identified a lack of English language and literacy skills as a major problem in the TCF workforce, reducing the effectiveness of communication on the factory floor.
The TCF industries are large employers of women, who represented 59 per cent of the formal manufacturing workforce in 1997. The clothing and knitting industries have the highest proportions of female workers, at about 74 per cent and 70 per cent, respectively. In contrast, men make up about 60 per cent of total employment in the textile fibre and woven fabric industry.

On average, TCF workers are older than those in all manufacturing and the rest of the economy. In May 1997, 65 per cent of the TCF manufacturing workforce were older than 35 years. This compares with just over 57 per cent for all of manufacturing and the rest of the economy (See Appendix C, Table C9). There is, however, again some variation between TCF industries — for example, leather has a predominantly young workforce.

TCF manufacturing has a significantly higher proportion of married women when compared with manufacturing in general and the economy as a whole. That is, more than 42 per cent of the TCF workforce were married women in
May 1997 compared with 25 per cent for manufacturing in general and about 18 per cent for the workforce as a whole. The high proportion of married women is even more pronounced in clothing manufacturing where more than 50 per cent of the total workforce in May 1997 were married.

These various characteristics present problems for labour mobility, discussed in Chapter 4.

3.3 Industrial relations

Industries which have been insulated from strong external competition for lengthy periods tend to have weaknesses in management and workplace practices. The changes in the competitive environment faced by the TCF industries over the last decade have highlighted the need for improved management and more productive workplace arrangements. In response, there has been a growth in enterprise agreements in larger companies in TCF industries — most smaller businesses continue to operate under the relevant industry award. Participants expressed some concerns about the effects of the industrial relations framework upon the structure and performance of the industries (see below).

These issues need to be examined in the context of the new workplace arrangements which are being established under the Workplace Relations Act 1996. This legislation requires that all federal awards be reviewed by 1 July 1998.

The awards will be reviewed by the Australian Industrial Relations Commission (AIRC) in accordance with the legislation to ensure they are simplified and focused more directly on their role of providing a safety net of minimum wages and conditions. The provisions apply immediately for all new awards. All awards must be reduced to a maximum of 20 allowable conditions on which the AIRC will be allowed to arbitrate (s89A). Currently, the TCF awards contain more than the stated 20 allowable matters which means that many provisions will need to be removed, including possibly those which participants have argued reduce labour productivity. In addition, to simplify the awards and increase workplace flexibility, clauses will need to satisfy the criteria set out in section 143(1) of the Act. Specifically, awards will:

- not include matters of detail or process which are more appropriately dealt with at the enterprise level or at the workplace;
- not prescribe work practices that do not restrict efficient work practices or productivity;
be expressed in plain English;
• not discriminate against employees;
• where appropriate, contain facilitative provisions which allow agreement at the workplace or enterprise level, between employers and employees, on how the award provisions apply;
• where appropriate, contain provisions enabling the employment of regular part-time employees; and
• not include provisions which continually need updating.

Participants stated that workplace flexibility is important to maintain and build their competitiveness. For example, BTR Kennon stated that:

The inability to successfully adjust the conditions of employment so that they more properly meet customer demand is also of significant importance. We would stress the need for a mobile flexible workforce that responds to the changing demands of customers. (sub 91, p. 3)

Also, Cotton Australia Ltd. stated that:

The capital intensive cotton industry (growing, spinning and weaving) requires optimum workforce flexibility, round the clock/7 day/50 week work patterns and the ability to hire for short term and seasonal requirements. (sub. 156, p. 9)

The Textile, Clothing and Footwear Union of Australia (TCFUA) stated that it did not see the current arrangements as inhibiting workplace flexibility:

In regards to the flexibility of the labour force within the TCF Industries it is our submission that the current industrial instruments and other agreements that have been negotiated by the Union with employers or vice versa provide no barrier to the TCF Industries being internationally competitive. (sub. 128, p. 17)

### 3.3.1 Awards

Three federal awards cover the TCF industries — the Clothing Trades Award (1982) the Textiles Industry Award (1981) and the Footwear Manufacturing and Component Industries Award (1979). The majority of the TCF workforce is covered by the federal awards. In addition, all States except Victoria have their own awards which generally mirror the provisions of the federal awards. The federal awards were established in the late 1970s and early 1980s, but were substantially restructured in the late 1980s as part of a wider overhaul of the award system.

---

3 The leather industry is covered by two awards which are not discussed — the Tanning Industry Award (1992) and the Saddlery, Leather Canvas and Plastic Materials Workers Award (1987).
As they currently exist, the TCF awards cover a large number of areas, such as pay, hours worked, conditions for hiring and retrenching staff, leave, training and a range of other workplace conditions. These documents are long and complex, in both subject matter and the language in which they are expressed. (The clothing award extends to more than 300 pages.) There is a risk that, in trying to codify the conditions and obligations in an employment relationship for participants in these industries, the awards may be restricting flexibility. Apart from inhibiting productivity growth, such reduced flexibility may also be one reason why businesses use homeworkers.

The federal awards contain clauses which, in some circumstances, may inhibit workplace flexibility unnecessarily. For example, the awards specify practices which restrict the types of people who can be employed and the times at which they may work. The effect of these clauses will vary for each different case. In some workplaces, it is likely that the letter of the awards is not followed in all circumstances, by mutual informal agreement between employers and employees. The Commission considers, however, that adverse effects are likely to be significant.

In general, participants’ views on the awards related to their restrictive nature. For example, the TFIA stated that:

... despite a move towards workplace bargaining, in the majority of workplaces the terms and conditions of employment are predominantly specified and managed according to the requirements of the industry award, and to this extent the relationship between employer and employee remains highly regulated.
(sub. 66, p. 55)

Mr Gercovich, a dye-house manager, described specific examples of the rigidities encountered:

Unfortunately to the detriment of the workers and the company there is very little flexibility in the conditions of employment. This is generally brought about by the insistence of the relevant unions to dictate what can and can’t be done regardless of the wishes of their members. We have had occasions where the workers have made requests to the company to work on a public holiday and then to have a day off in lieu to make either a long weekend or have the holiday when it suits them. Regardless of the request of their members the union would not agree to this and made it clear that if they work we must pay overtime rates which we simply cannot afford to do. Similarly there are times when we are busy and it is inconvenient for business to shut for a public holiday why shouldn’t we (if it is agreeable to the workers) take the holiday at a quiet period.
(sub 38, p. 10)

A survey of members in the TCF industries by the Australian Chamber of Manufactures (ACM) found that the TCF awards:
... have been highly restrictive and have regulated very tightly the relationship between employers and employees in the different industries within the TCF sector. ... With respect to the specific sectors, the Clothing Trades Award has probably been the most restrictive. (sub. 87, p. 18)

Finally, Godfrey Hirst (sub. 111) and its subsidiaries, Benalla Spinners and Barwon Spinners (sub. 110) and Riverside Textiles (sub. 112) stated that one of the major factors influencing employment and labour productivity in Australia’s TCF industries is the lack of flexibility in award conditions.

In contrast, the TCFUA stated that employers in general were happy with the flexibility offered by the award:

> A general comment from a large number of employers is that “they achieve all the flexibility that they require via the award”. (sub. 128, p. 17)

**Who can be employed**

Some of the awards restrict the use of casual and part-time workers. As quick response and small production runs become increasingly prevalent among clothing manufacturers, restrictions on adjusting staffing levels to meet short-term fluctuations in demand would appear to inhibit flexibility, productivity growth and employment.

The awards contain several types of restrictions on these forms of employment. For example, the footwear and textiles awards include specifications of allowable ratios of full-time to part-time and casual workers. Senior to junior worker ratios also are regulated. They also state that a part-time employee cannot be employed for fewer than 19 hours per week.

The extensive use of homeworkers may be not unrelated to these provisions.

As discussed in the next section, some of these issues may be resolved with the implementation of the *Workplace Relations Act 1996*.

**Times worked**

The awards specify the times and days on which employers may employ workers. For example, the Clothing award (clause 25) states that unless there are extraordinary circumstances and the General Secretary or Branch of the Union gives consent, no work is allowed on Sundays. In some cases an employer also must seek union approval regardless of employee agreement on the times worked. For example, the Footwear award (clause 19(a)) states that union approval is required if the employer decides to change the working hours even within the ‘normal hours’ band, regardless of employee approval. Some awards contain very specific rules regarding the times when particular types of
employees can work. For example, the Clothing award (clause 11(e)) states that approval from the Board of Reference must be obtained before hot head press operators and curing oven attendants are to work past 6.00pm.

Again, these types of provisions appear at odds with the need for higher productivity and a growing trend toward quick response production which requires flexibility to respond to fluctuating demand. They would appear to limit full utilisation of fixed capital, inhibiting productivity and employment opportunities.

The new Workplace Relations Act, in an effort to increase workplace flexibility, limits the power of some of these types of clauses. The Act states that the AIRC will not be able to set ratios or limit the number or proportion of employees working on a particular basis. Also, maximum and minimum hours cannot be set for part-timer employees except for minimum consecutive hours and provisions facilitating a regular pattern in hours. Regular part-time work is defined as involving fewer than full-time hours, reasonably predictable hours or work and pro-rata wages and conditions. In addition, the AIRC is no longer able to specify preference to unionists; this affects the clauses in the textiles and clothing awards which relate to union preference in hiring and laying off staff. These provisions, once implemented, should address some of the issues raised above.

Finding

The federal TCF awards contain clauses which have the potential to constrain productivity unnecessarily. Under the Workplace Relations Act, these awards must be reviewed and simplified and reduced to 20 allowable matters by 1 July 1998. It is important that this requirement is met.

3.3.2 Enterprise agreements

For companies which are dissatisfied with current award provisions, enterprise agreements have been available in Australia as an alternative since the introduction of Certified Agreements (CAs) under the Industrial Relations Act 1988, but subject to certain limitations on the freedom of employers and employees to determine employment conditions. The Federal system of enterprise bargaining and agreements has been modified progressively since then through the:

- Enterprise Bargaining Principle in 1991;
- the Industrial Relations Reform Act 1993 (which commenced in 1994) which introduced Enterprise Flexibility Agreements (EFAs);
and the Workplace Relations and Other Legislation Amendment Act 1996, which repealed EFAs established Australian Workplace Agreements (AWAs) and Certified Agreements.

Workplace agreements can be struck also under State legislation, such as New South Wales’ Industrial Relations Act 1996.

CAs are currently the most common form of agreement. They can be made at State or federal level and most (but not all) are registered with the appropriate Industrial Registry. Like awards, registered agreements are legally enforceable documents. On the expiry of a CA, it can remain in force for a further three months to allow for negotiations. After that point, the agreement continues to apply as if it were an award unless it is terminated (in which case the relevant award will apply) or a new agreement is made. Enterprise agreements legally replace awards, but so far the majority (90 per cent of CAs) have built upon existing award conditions.

Currently, enterprise agreements are far more common in large companies and workplaces than smaller ones (DIR 1996). One of the aims of the Workplace Relations Act is to make formal agreement-making easier for the small business sector. For example, under s170LK of the Act, CAs may be agreed between employers and employees without union involvement if they meet the ‘no disadvantage’ test. Once the Act is more fully understood, more small businesses should find agreements a useful tool in delivering workplace flexibility and productivity gains.

Workplace agreements are used currently by firms across a range of TCF industries but they are not widespread in clothing and footwear, where the majority of employees remain under awards. Industry organisations believe that this is due in part to the predominance of smaller firms in clothing and footwear and in part to perceptions of difficulty in negotiating agreements:

... Workplace Agreements have largely remained the domain of larger companies who have the resources to participate in what is often a lengthy and difficult process. For most of the small companies with less than 20 employees, that comprise at least 75 per cent of the companies in the industry, workplace bargaining has remained largely irrelevant. (TFIA, sub. 66, p. 54)

In addition, the ACM stated that:

With the larger textiles companies being a significant exception, the vast majority of companies in TCF have not embraced enterprise bargaining. The twin realities that agreements, are to all intents and purposes, impossible without the involvement and approval of the union and that change, no matter how essential, must be paid for in wage rises have prevented the involvement of many firms in the drive for change. (sub. 87, p. 20)
Implementation of the *Workplace Relations Act* may alleviate these concerns. As noted above, agreements between employers and employees may be reached without union involvement, making employers and employees primarily responsible for their own relationships.

The success of the TCF industries in negotiating and implementing enterprise agreements has been mixed. The TCFUA noted that “... there has been resistance from employers to enter into certified agreements or even enterprise flexibility agreements ...” (sub. 128, p. 17). Similarly, some industry participants argued that their employees and the union had been resistant to negotiations or that the negotiation process had been used simply as a vehicle for furthering higher pay demands. Other participants thought that the potential benefits of enterprise bargaining would be insignificant or not worthwhile. In addition, some small firms, which have agreements, have stated that they are currently unhappy with the bargains they have made, especially in relation to redundancy provisions (see below).

A number of TCF firms which have implemented an enterprise agreement reported that workplace efficiency and productivity had improved as a result. Improvements came primarily from achieving greater flexibility in skills usage (multi-skilling) and worktime (shift work and overtime arrangements). Major innovations and benefits identified by participants included:

- quality-based team bonus payments;
- annualised hours and increased flexibility in weekly hours;
- upgrading and utilising new skills;
- improved workplace communications, productivity bonuses and temporary labour provisions;
- reduced union demarcation; and
- increased teamwork.

The Commonwealth Department of Workplace Relations and Small Business (formerly the Department of Industrial Relations) indicated that there were many innovative CAs on such matters as overtime make-up time, sick leave, productivity improvements and hours of work (see Box 3.1).

### 3.3.3 Redundancy provisions

Redundancy provisions are more important than usual in industries such as TCF which are undergoing significant structural change. Employers and employees need to be aware of the implications of such provisions for future performance
Box 3.1: Example of a Certified Agreement — Hours of work

The following is an example of an innovative clause in a certified agreement to increase the employer’s flexibility in the hours of work.

Under this agreement provision was made for ordinary hours to be worked at any time of the day, seven days a week. Up to 28 consecutive days can be worked. In conjunction with increased ordinary hours a salary averaging system was introduced. As part of the total agreement package the averaged salary incorporates shift, overtime and penalty payments.

*Source:* Commonwealth Department of Workplace Relations and Small Business, sub. 227, p. 9

and employment. Under the three relevant TCF awards, provision of severance pay in the event of redundancy does not appear to be overly generous, compared with award provisions in other sectors. Under all three federal awards, severance pay entitlements are between four and eight weeks’ ordinary time pay depending on the number of years of continuous full-time employment:

One year or less and all apprentices    nil
One year and up to the completion of two years   4 weeks’ pay
Two years and up to the completion of three years  6 weeks’ pay
Three years and up to the completion of four years   7 weeks’ pay
Four years and over                     8 weeks’ pay

Box 3.2 illustrates a typical award-based redundancy payment for a long-serving TCF employee.

<table>
<thead>
<tr>
<th>Years of Continuous Full-time Employment</th>
<th>Severance Pay Entitlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year or less and all apprentices</td>
<td>nil</td>
</tr>
<tr>
<td>One year and up to the completion of two years</td>
<td>4 weeks’ pay</td>
</tr>
<tr>
<td>Two years and up to the completion of three years</td>
<td>6 weeks’ pay</td>
</tr>
<tr>
<td>Three years and up to the completion of four years</td>
<td>7 weeks’ pay</td>
</tr>
<tr>
<td>Four years and over</td>
<td>8 weeks’ pay</td>
</tr>
</tbody>
</table>

Box 3.2: Award-based severance payment entitlements

Under the Clothing Award 1982, a sewing machinist with 18 years of continuous full-time employment with one firm would be entitled to a redundancy payment of $3104. This is calculated from the award entitlement of eight weeks’ pay for four or more years of continuous employment, assuming the ordinary time wage to be the current award rate of $388 for a full-time (38 hour) week.

This amount will be augmented by any superannuation, annual leave, long service leave and other entitlements which may still be owed to the employee.

*Source:* Clothing Award 1982, clause 51(c)

As in most awards, employers considering redundancies are required firstly to discuss the situation with their employees and their unions, including the numbers and timing of terminations, and to consider any available options for...
minimising employment losses (textiles award, clause 48(a), clothing award, clause 51(a) and footwear award, clause 46(a)).

The clothing award is unusual in imposing redundancy provisions on employers with fewer than 15 employees. This non-exemption was determined because of the high proportion of small businesses in the clothing industry, but it represents an additional cost not imposed on small businesses in other industries. The textiles and the footwear awards exempt these smaller employers from redundancy payments, as do most other manufacturing awards. Under all three awards, employers who cannot afford to meet their severance payment obligations can apply to the AIRC to vary the general severance pay prescriptions on the basis of incapacity to pay (textiles award, clause 48(m), clothing award, clause 51(l) and footwear award, clause 46(m)).

Under the Workplace Relations Act, redundancy pay is one of the 20 ‘allowable matters’ or core conditions which are to be included in federal awards administered by the AIRC. Redundancy provisions with a structure similar to the existing clauses are therefore likely to be retained in future AIRC revisions of TCF awards.

The experiences of TCF companies in negotiating redundancy clauses as part of their enterprise agreements have been mixed. Some companies have chosen to base the redundancy provisions of their agreements on the award provisions, allowing for essentially the same entitlements as those described above (TCFUA, sub. 128). However, other companies have agreed to redundancy clauses in their enterprise agreements which are considerably more generous than those in the award, either because the perceived ‘market rate’ was higher or because higher redundancy payments were part of a trade-off for other labour efficiencies — for example, more flexible shift arrangements or the restructuring of penalty and overtime rates (ACM, sub. 87).

Many industry participants in this inquiry indicated that they have had low staff turnover over many years. In these cases, redundancies can be difficult emotionally and financially for both employers and employees. For example, Gloweave reported that:

We’ve made quite a few redundant ... Its been very, very painful because our staff turnover has been almost nil over many, many years. ... Its a painful thing to think about. (trans., p. 251)

And:

Due to the fact that we have a low turnover of staff, most of whom have been with us over 20 years and some over 30 years, we have an enormous contingent liability of redundancy payments. (sub. 27, p. 2)
A high proportion of long-serving employees can increase redundancy costs considerably for TCF firms which have negotiated more generous redundancy provisions as part of an enterprise agreement. This is particularly true of companies which have agreed to remove the cap on years of employment in calculating payments. For example, without the four-year cap, the sewing machinist of 18 years’ employment (Box 3.1) would be entitled to $14 000 (two weeks’ pay for each of 18 years) rather than the award payment of $3104.

Consequently, some TCF manufacturers using ‘uncapped’ redundancy agreements have found that their redundancy liabilities now can hamper efforts to restructure. Gloweave explained to the Commission that:

... we negotiated with the union and we’ve paid a higher level than the minimum award ... we have no cap on our redundancy agreement, so that is where it becomes a very major expense ... (trans., p. 251)

Similarly, at Bradmill Undare:

... the average sort of period of employment is 18 years and you’re talking two and a half weeks for each year as a minimum ... (trans., p. 384).

However, the majority of enterprise agreements are of a short-term nature — typically one to three years. After its conclusion, the agreement can be:

- renegotiated between the parties;
- terminated, by an agreement between the parties; or
- terminated by the AIRC — if it considers that the termination is not contrary to the public interest — on application by one of the parties.

Where redundancy provisions are, in hindsight, too generous, companies may alter their redundancy obligations through one of the above processes.

Some TCF companies have commented on the difficulty of reducing redundancy liabilities through negotiated agreement, implying that it is flexible ‘only upwards’ (for example, Supertex Industries, trans., p. 11 and ACM sub. 87). Nevertheless, new redundancy agreements can be struck through the enterprise bargaining process. This was done, for example, at Australian Defence Apparel:

In October 1995 ADA, Australian Defence Apparel Ltd, purchased from ADI Ltd, Australian Defence Industry Ltd, its clothing factory in Bendigo. As part of the sale process ADA negotiated some revisions to the Enterprise Agreement in place with the workforce and union. Prior to the sale ADI Ltd had effected 10 redundancies. ADA effected an additional 10 and guaranteed no further redundancies for one year. The revised agreement wound back some previous conditions, the major one being that future redundancy accruals would be based on the award and that pay rates would be frozen until parity was reached with the
Redundancy provisions negotiated in some TCF companies’ enterprise agreements which do not have a maximum cap are likely to prevent some firms from restructuring. This weakens the medium-term employment prospects in TCF industries. In view of the growing competitive pressures on TCF firms, enterprise agreement negotiations need to pay closer regard to market realities than in the past.

3.4 Training

As discussed in Section 3.2, there has been a significant fall in employment in low skilled jobs in the TCF industries, and a greater demand for more highly skilled and multi-skilled workers. The existing TCF training infrastructure needs to keep up with these shifts in the pattern of demand for labour.

Arrangements governing the provision of training in the TCF industries is complex. Providers include government and privately funded bodies, industry organisations and individual firms. Instruction ranges from informal on-the-job training to formal certified courses with nationally recognised skills. In 1993, just over 70 per cent of TCF workers undertook some kind of training compared with around 80 per cent for all manufacturing (unpublished ABS data).

Increased competitive pressures and structural changes in the TCF industries have increased the need for the workforce to acquire new skills and maintain existing ones. The Melbourne Institute of Textiles emphasised the importance of an effective training strategy:

> Quality education and training is the key to a more productive workforce, more innovative products and processes, the anticipation of new market needs and the harnessing of the possibilities and potential of existing and new technology.

(sub. 30, p. i)

3.4.1 Skill gaps

Training provision needs to keep up with structural changes if it is to remain relevant. However, some parties have argued that training has not kept up with industry’s changing needs. The TFIA stated that the:

> ... fragmented approaches currently in place (for training) ... [may] ... have contributed to the skills shortages which now present themselves as impediments to re-structured industries seeking to maintain a viable place in competitive global markets. (sub. 66, p. 59)
On the other hand, the Commonwealth Department of Employment Education Training and Youth Affairs (DEETYA) stated:

Work recently undertaken by DEETYA suggests that there are few skill shortages in the TCF industry, although there appears to be a need for up-skilling of existing staff in new technologies. The reported shortages for textile mechanics and sewing machinists appear to be mainly attributable to relatively high turnover and wastage, so that increased training is unlikely to address the problem. Some of the shortages reported by the Industry Commission [in the draft report] as evident in the TCF industry are general shortages which are apparent across all industries (eg some metal trades), and these have been persistent over the long term. (sub. 264, p. 4)

While DEETYA’s work did not highlight across the board skill shortages a number of participants identified specific areas of skill gaps. The South Australian Government, for example, stated that there were shortages in design, cutting, machining, sewing and technical advice (sub. 132, p. 3).

The TFIA stated that:

Restructuring has increased demand for skilled labour relative to unskilled labour. As well as demand for skilled operators in all sectors, there is increased demand for personnel in the fields of marketing, quality control, design/product development, and for technicians and technologists. Skilled personnel in these areas are very difficult to find and many companies find it necessary to recruit overseas. (sub. 66, p. 60)

Several participants noted specific skill gaps. Scapa Filtration stated that, until recently, a shortage of loom tuners resulted in overseas recruitment (sub. 28, p. 11). Particular skill shortages noted by Benalla Spinners were for carding engineers, apprentices in textiles and related mechanical and electrical trades, textile graduates, management graduates (degree level management skills and knowledge), and operator level knowledge required in textile technical, quality, safety and other areas necessary for multi-skilling and up-skilling (Benalla Spinners Pty Ltd and Barwon Spinners Pty Ltd, sub. 110, p. 23). Riverside Textiles also noted that there were shortages of apprentices in textiles and related mechanical and electrical trades, management graduates and operator level knowledge (sub. 112, p. 18). Australian Leather Holdings stated that there is a shortage of machine operators and supervisors with specific industry experience and technical staff trained at tertiary levels. (The company has sponsored such people to come to Australia from overseas.) (sub. 140, p. 23).

The Australian Light Manufacturing Industry Training Advisory Board (ALMITAB) is responsible for identifying current skill shortages, amongst other things. In its draft Industry Vocational Education and Training Plan for 1997-98, it expects that skills most in demand will be in the areas of multi-
skilled workers, textile operators, TCF mechanics and technicians (ALMITAB 1996).

Skill gaps occur for a number of reasons. The ALMITAB TCF training strategy identified five reasons why skill shortages will occur in TCF — expanding sectors, industry restructuring, changes in technology, inadequate technician/middle level training structures and changed demands of Australia’s society (ALMITAB 1996).

Industry attitude is another factor which may have led to a shortage of particular skills in the industries. The industries may have missed opportunities to contribute to a better training regime. Several participants have argued that the TCF industries traditionally have not viewed training as an essential element of the operation of their businesses. The TCFUA stated that:

Some employers in the TCF industry still subscribe to the ‘sit by Nellie’ philosophy with regard to vocational education and training. ... There is a general misunderstanding amongst employers that structured training is cost negative. In fact structured training can influence productivity and efficiency of the workplace through, amongst other things — decreasing the rework and double-handling, reducing the throughput, response and delivery times, which in fact means structured training is cost effective. (sub. 128, pp. 17–18)

Participants have perceived a change in recent times, towards greater recognition of the beneficial impact of training. For example, the TCFUA stated that:

There has been a shift in the ‘training culture’ of the TCF Industries but there remain large pockets of untapped potential to improve the efficiency and productivity of the industry through the implementation of structured training at the workplace. (sub. 128 p. 19)

The Melbourne Institute of Textiles also talks of the improvement of industry attitude, stating that “The ‘training culture’ of the industry continues to change for the better” (sub. 30, p. 8). Some participants clearly demonstrated a recognition of the benefits of training. Enoch Taylor & Co. stated that:

Retention of the labour skill base and development of flexible labour relations on an enterprise and industry wide basis is important. This is why our company gives a high priority to skills training ... (sub. 90, p. 3)

However, training expenditure figures and hours spent in training suggest that TCF industries still invest less than other industries in training (see Table 3.4).

The recently completed TCF Best Practice 2000 Benchmarking Study (a survey of 210 Australian and international TCF companies) found that in training hours and qualification levels, Australian TCF companies rank well below ‘best
practice’ TCF companies overseas. The Benchmarking Study found that for both manufacturing and finance and marketing level employees:

There is a significant opportunity for most Australian companies to improve their performance by improved training effort. (Arthur Andersen 1997, p. 9)

### Table 3.4: Training expenditure, Australia, July to September 1993

<table>
<thead>
<tr>
<th>ANZSIC industry</th>
<th>Total expenditure as per cent of gross wages and salaries (%)</th>
<th>Average training expenditure per employee ($)</th>
<th>Average training hours per employee (hrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCF (22)</td>
<td>2.3</td>
<td>150</td>
<td>4.6</td>
</tr>
<tr>
<td>All manufacturing (2)</td>
<td>2.6</td>
<td>204</td>
<td>6.5</td>
</tr>
<tr>
<td>All industries</td>
<td>2.9</td>
<td>192</td>
<td>5.6</td>
</tr>
</tbody>
</table>

*Source: Unpublished ABS Training Expenditure Survey data*

Other participants, including DEETYA (sub. 264) and the Victorian Government (sub. 265), argued that skill gaps occur because the poor image of the TCF industries makes it more difficult to attract bright young people. Norman Ritchie Fabrics also stated that this is more important than the immediate issue of training provision:

There are facilities for training both on the job and in technical institutions. They could be improved but this is not so important as the need for the textile industry to be seen as an industry renewed and revitalised and an industry with a viable future. (sub. 21, p. 8)

The Geelong City Council attached importance to lifting the image of the TCF industries:

The industry needs to be able to project an optimistic future in order to attract people into training who can be leaders and innovators, as well as machinery operators, etc. (sub. 105, p. 7)

Further, Wrixon Holdings stated that:

... it’s negativity [associated with the industry] that is hitting us and killing us as much I believe as the actual tariff reductions. (DR trans., p. 707)

### 3.4.2 Government provision

Participants identified a number of problems relating to government-provided training. Currently, governments deliver training through an established institutional framework which seeks industry involvement through Industry Training Advisory Bodies (ITABs) and provides training through TAFE
colleges, schools and universities. Governments also provide funding to private providers.

A recent review (Taylor 1996) of the Australian National Training Authority (ANTA), which makes decisions on strategic policy, national objectives and priorities, and allocates growth funding for the national vocational education and training system, identified areas where the Commonwealth and State governments’ provision of training could be improved.

In recent times, governments’ role in the provision of training has undergone significant reform to address some of these criticisms. DEETYA stated that the key elements of the reforms have been the closer involvement of industry, the implementation of a competency-based approach to training, the reorganisation of entry-level training arrangements and the provision of structured workplace training. In addition, the current objectives of the national Vocational Education and Training (VET) system are:

- delivering more apprenticeship and traineeship training;
- being responsive to and accessible by small and medium enterprises;
- fostering labour mobility throughout the Australian economy;
- giving business a key role in leadership and providing training to relevant business;
- being accessible and equitable to all groups in the community in the planning and delivery of services;
- developing administrative and delivery mechanisms to ensure responsiveness to clients; and
- being more efficient through the use of flexible and competitive delivery arrangements. (sub. 264, p. 16).

Despite the ongoing reform process, participants’ criticisms of training focused on a lack of relevant courses, the poor quality of courses provided and the lack of TAFE’s flexibility in the delivery of training. For example, Traxtion Sports stated that:

We have had workers attend TAFE courses in which they can obtain certificates and they have returned disillusioned in the fact they have known more of the basic applications than the instructors. The techniques that have been taught to them have not taken into consideration time or cost factors therefore are inappropriate when relating to working within the industry. (sub. 41, p. 5)

The TFIA also stated that:

... training programs available through the public sector have not kept pace with the skills development needs that have been identified over the past five years.
Many of the programs still offered by training institutions remain ‘craft based’.
(sub. 66, p. 60)

Several reasons were put forward for the industries’ dissatisfaction. For example, Gibbs Burge thought that TAFE colleges, in this case the Melbourne Institute of Textiles, had in the last few years shifted its focus away from providing skills training to TCF manufacturing:

Unfortunately and particularly so in the textile training area, the emphasis on ‘bums on seats’, as the basis for most tertiary education funding, has skewed training provision toward non-industry-related courses. ... we are generally disappointed with the Melbourne College of Textiles, which, in this manner, shifted its emphasis away from the industry it was originally set up to support.  
(sub. 26, p. 17)

Melbourne Institute of Textiles also stated that teachers needed to be better qualified:

Industry training requires the combination of ... important skills of teachers and trainers — the development of training packages (of curriculum, materials, assessment and customised elements); the flexible delivery of training, including workplace delivery. However, the changing role of teachers is not yet widely reflected in teacher preparation and training.  
(sub. 30, p. 10)

The ANTA has plans to address this issue as part of a larger strategy to encourage professional development in the VET sector with a staff development initiative — ‘Framing the future adviser network’.

Participants also commented on the regulatory burden associated with government provision of training. It was thought that lengthy government processes and involvement of government representatives in the provision of training have made it less effective. Melbourne Institute of Textiles raised this issue:

The complexity of Federal and State responsibilities, the involvement of various departments and agencies (eg Department of Employment, Education, Training & Youth Affairs — DEETYA; the Australian National Training Authority — ANTA; State Training Systems and their offices; Department of Industry, Science & Tourism — DIST) can operate to alienate industry from its education and training.  
(sub. 30, p. 9)

In addition, Mr Gercovich stated:

We in the past have received DEET funding for training but my own observation of this was the enormous and horrendous cost of managing the paper work.  
(sub. 38, p. 9)

Although industry understands that recognition of training is an essential part of skills attainment if skills are to be transferable, it was felt that the regulatory
process involved is excessive. For example, the Melbourne Institute of Textiles states that:

... there is still a great deal of frustration about the unnecessary complexity and unresponsiveness of the curriculum development and accreditation systems.

The current national and State systems of developing, changing and accrediting training programs and materials only serve to alienate industry (and teachers of Vocational Education and Training (VET)). (sub. 30, p. 8)

Further, Melbourne Institute of Textiles claimed that one of the reasons for the ‘alienation’ is that the curriculum developers are selected by a public tender process according to price and not industry knowledge. The consequence is claimed to be an ineffective use of resources:

The practice of awarding curriculum development projects by tender, based on price, has had the effect of not fully utilising the resources and knowledge of the industry in the process. Lowest price does not necessarily equate to quality. ...

In Victoria, the overall management and maintenance of TCF curriculum was awarded to the Casey Institute of TAFE in Dandenong, although this institute has no links with or services to these industries. (sub. 30, p. 9)

Further, the process to develop a training course and then have it accredited can be very lengthy and involve consultation with several government bodies. A recent example is the attempt made in 1996 by the Geelong Processing Training Taskforce, which comprised several manufacturers in Victoria and one in New South Wales, to initiate a plan to pool their resources in conjunction with a TAFE College to meet the training needs of the wool processing industry. However, the project was abandoned after several attempts by this group to seek government financial assistance (see Box 3.3).

3.4.3 Coordination of training provision

The lack of coordination in the delivery of recognised training in TCF industries is another factor which may influence how quickly and how well the existing training infrastructure can adapt to changing demand patterns for skilled labour. Currently the Commonwealth, States, Territories and industry are all involved, either directly or indirectly, in the delivery of training. Governments predominantly provide training to the TCF industries through the vocational education and training system, of which the major providers are TAFE colleges. Other government-funded providers of training are universities and schools. Another layer in the system is the State and National Industry Training Advisory Bodies, which consist of industry representatives providing information to governments on industry training needs. ANTA and the National and State
Box 3.3: Geelong Processing Training Taskforce

The Geelong Processing Training Taskforce expressed frustration over the handling of its submission to develop a training project. The Taskforce undertook the following process:

1. Approached the Minister of Education and Training with its submission which then in turn was referred on to the Department of Employment, Education and Training (DEET, now the Department of Employment, Education, Training and Youth Affairs);

2. Was instructed by DEET to submit the proposal to the Australian National Training Authority (ANTA) and did so;

3. Was instructed by ANTA to submit the proposal to the relevant National Industry Training Board and did so;

4. Submitted the submission to ANTA through the Industry Training Board and was told to resubmit.

5. Re-submitted the submission to ANTA through the Industry Training Board.

6. Submission was considered by the ANTA Curriculum and Standards Council.

7. Submission was referred by the Council to the New South Wales TAFE Manufacturing Training Division, which was project manager of a previous grant from the Industry Training Board for curriculum and materials.

8. Correspondence received by the Taskforce from NSW TAFE colleges inviting expressions of interest for development of curriculum previously developed in Victorian TAFE Colleges.

9. Taskforce sent further correspondence to new Federal Government Minister for Education and Training resulting in Minister’s office referring back to ANTA.

10. Has heard no further response.

Source: Information supplied by Geelong Wool Combing

Industry Training Advisory Boards are concerned primarily with the delivery of vocational education and training. In addition, the industry also has attempted to deliver accredited training by developing alliances independently.

The TFIA stated that:

Schools, TAFE and universities are governed by a range of separate bureaucracies which normally vary on a state by state basis. The industries have therefore had difficulty in putting in place a nationally consistent training strategy which will also meet skill development needs at the enterprise level.
given the uncoordinated approach outlined, and given that training providers themselves often appear to set their own priorities in terms of how funds are spent in regard to training for the industries. (sub. 66, p. 60)

Some preliminary efforts have been made to address this problem. For example, the Melbourne Institute of Textiles is aiming in 1997 to develop, amongst other things, alliances with one or more universities to provide textiles degrees (sub. 30). DEETYA is also aiming to foster closer linkages between schools and vocational education and training. Finally, the Australian Fibre Training and Education Centre (AFTEC) model (as discussed below) also aims to provide a coordinated approach to training.

3.4.4 Industry participation in training

Several participants have criticised the historical lack of a training culture in the TCF industries. However, parts of the industries have increased their training effort, within their own firms and through industry-wide initiatives.

From the employers’ point of view, the low rates of staff turnover in most of the TCF industries would suggest that an investment in employer-funded training is unlikely to be lost. Although there may be high turnover in some areas of the TCF industries, labour turnover for the TCF sector as a whole is less than that for manufacturing and the economy as a whole (see Appendix C). In addition, a significant portion of this labour turnover occurs within the TCF sector.

Some participants have stated that there is a culture within the industry to provide training in-house. The Footwear Manufacturers’ Association of Australia stated that the provision of in-house training is extensive because of a perceived failure in the traditional government training infrastructure to provide the skills required (sub. 103).

At an industry level, participants have identified TexSkill as a model for training which has received significant industry input. TexSkill established operations in 1991 and is a company registered to provide vocational education training. It is owned and managed by the Australian textile industry and operates through its industry-based Board of Directors (see Box 3.4). To obtain maximum value and use, facilities and equipment for TexSkill are provided jointly, under agreement, with Melbourne Institute of Textiles. Most of the funding for the development of TexSkill was provided by the Victorian and Commonwealth Governments.

Participants have stated that TexSkill has been very successful in meeting and providing for industry training requirements and has the support of industry. For example, Gibbs Burge stated:
TexSkill has been outstandingly successful in lifting the quality and quantity of spinning training in the industry. This, we believe, is the way forward for other areas of textile training in this country. (sub. 26, p. 17)

Participants have indicated that the benefits of TexSkill stem from its ability to provide industry training requirements by being flexible in its delivery and providing up-to-date training courses.

**Box 3.4: TexSkill**

TexSkill operates a National Skills Centre in Brunswick, Victoria. Its operation relies on the support of industry-related institutions.

TexSkill’s brief is to provide training to meet industry needs both at the firm and/or at its skills centre. The broad objectives of the company are to:

- provide flexible training packages which relate to the national training framework and continue to address the education needs of the industry;
- operate TexSkill as a national training facility that is up-to-date with technology, work methods industry requirements and government initiatives; and
- ensure maximum use of TexSkill Centre’s equipment by providing specialist technical services to industry, such as research and development, sampling, trials and short runs.

In summary, TexSkill provides the following services:

- factory-based and short course training;
- curriculum development activities; and
- product development

Services are provided to the following areas — fibre processors, spinning, knitting, weaving, carpets, non-weaving, dyeing, finalising, finishing and printing.

*Source:* TexSkill 1996

### 3.4.5 Proposals for improvement

An improved training structure could benefit TCF industries and help them to meet the challenges of the global trading environment. Currently, the limited resources for training from institutions and industry are inadequate to meet the technically sophisticated training requirements of the TCF industries. TCF training must be improved. This should in turn, improve perceptions of the TCF industries and help to increase industry confidence in the training framework and encourage further industry participation and investment in training.
If training is to be improved for the TCF industries, it is clear that stakeholders must cooperate to develop new approaches. The following roles of major stakeholders are envisaged:

- **Industries** — Industries’ financial contribution to TCF training has been relatively small to date. Stronger industry involvement is required, especially in setting priorities and investment. Increased industry investment would provide resources, ownership and motivation to provide effective training. Industries must also be prepared to work more closely with government in a partnership when public funds are involved.

- **Providers** — Providers should work with industry to provide the skills required to deliver the courses. Providers need also to be involved in the coordination and streamlining of training courses.

- **Governments** — Governments will need to facilitate these changes by streamlining the institutional framework for the development and delivery of training and ensure that tertiary institutions are equipped to deliver appropriate courses and be accountable for them. Governments should ensure also that curriculum development is undertaken by experts.

Anecdotal evidence shows that industry, providers and governments are all endeavouring to improve the standard of training provided. However, current efforts appear piecemeal in nature. A combined effort is needed to improve the effectiveness of these initiatives.

A number of proposals have emerged to develop training further. For example, the Victorian Government has proposed development of textiles training through a new body — AFTEC — and the Melbourne Institute of Textiles has developed some other proposals.

The AFTEC concept emerged from recognition of inadequacies in Australian textile training and research and involves active industry participation to provide training which is judged to meet the needs of industry. AFTEC aims to encourage the coordination and management of textile training programs throughout Australia by creating an articulated training pathway from operator level to degree level. It is proposed that this would be achieved by developing partnerships with schools, TAFEs, universities and workplaces. It is envisaged that AFTEC would develop partnerships with existing bodies, such as the CSIRO in regard to the areas of technology transfer and research and development.

However, the AFTEC concept is still not fully developed. There are questions still to be answered about both its training and research functions — in particular, its relationship to existing institutions. It is not clear that its narrow
focus on textiles is appropriate to the needs of Australia’s TCF industries today, where technologies are converging. Nor is it clear that a centre, which is separate from recognised tertiary institutions, would be attractive to students or industry clients.

The current training framework is aimed at addressing some of the issues raised in the AFTEC report. For example, the opportunity for industry to develop an articulated pathway from operator level to university degree level already exists through the Australian Qualifications Framework (AQF). National, State and Territory ITABs have been established to represent TCF industries.

The Melbourne Institute of Textiles also has suggested a number of ways in which TCF training could be improved in Australia. These included development of a:

- network of TCF and training providers collaborating to develop and deliver world quality courses;
- network of TCF education and training providers working on targeted research and development initiatives, selected and driven by industry; and
- TCF Global Intelligence Service to provide selective information which could be used by governments and businesses (sub. 180).

A number of factors inhibit the current training structure and its longer-term viability. One of the key factors is the lack of modern capital equipment for training in some areas of TCF.

In some skilled areas, the number of graduates required in TCF industries is small relative to the large capital requirement. Where this is true it is ineffective and inefficient to offer fragmented training courses in different locations. The Commission believes that consideration should be given to developing a national resource, such as a central training centre, which could act as a central point for expensive and sophisticated equipment to develop up-to-date training courses for the attainment of these skills. Other education institutions would use this centre as a resource to improve their own courses.

Some benefits might also accrue from the central location of these resources, such as improving the links between the value-adding stages of the manufacturing processes.

Industry needs to increase its investment in training. Many companies are dissatisfied with the current institutional structure provided to meet the training needs of industry. Anecdotal evidence to the Commission suggests that the TCF industries wish to have far greater control of government funds appropriated for training. This reflects a desire to spend more on training and
less on its administration. However, while it is important for the industries to increase their involvement in training, it is important also that industries recognise the current institutional structure and work towards improving these arrangements. This is because:

- the appropriation of public funds demands public accountability; and
- most importantly, competencies and skills need to be readily transferable and recognisable. (This is one of the primary reasons that government contributes to the cost of training.)

As discussed in Chapter 1, higher productivity will be an important driver of the industries’ future competitiveness. Well trained staff will be a major influence on firm productivity. As present, the Australian training infrastructure may not be capable of meeting all of these needs. Where such gaps exist, there may be a case also for scholarships to be provided for advanced students to attend leading overseas institutions to undertake specialised courses. Travelling scholarships could be provided under the same framework as Australian tertiary study with the students being liable for a HECS fee equivalent to that of an Australian institution. Industry should be encouraged to sponsor the student’s living expenses.

Industry should also consider providing cadetships, such as those operated by the Metal Trades Industry Association, for students to attend Australian TCF training. Industry cadetships can offer students attractive incentives to study and enter the TCF industries giving the students a perception of industries which are vibrant and active in attaining skills to meet future growth opportunities.

These proposals should be viewed in conjunction with the TCF 2000 Development Strategy which is aimed at improving management practices of small and medium sized enterprises through benchmarking, improving the quality of manufacturing and helping businesses to develop supply chains.

Industry participation is essential for successful implementation of a training framework. To consider and possibly develop an implementation strategy of the national centre of excellence, the recently formed TCF Advisory Board, which has representation from industry, government and providers could be utilised.

**Recommendation**

A national centre of excellence for TCF training should be established.
Recommendation

Travelling scholarships for study in world centres of TCF excellence should be introduced.

3.5 Homeworking in Australia’s TCF industries

There has been a large decline in recorded low-skilled employment in the clothing industry. Several participants have claimed that at least part of this decline has been offset by an increase in the use of homeworkers in clothing and, to a lesser degree, other TCF industries.

Homework, sometimes known as ‘outwork’, can be defined as the production of garments or other products “... in a private dwelling or in premises other than a registered factory ... [for an employer or contractor]” (Homeworkers Code of Practice, TCFUA, unpublished). Although some people working from home in the TCF industries are genuinely self-employed crafts-people or manufacturers, homeworkers are not part of this group. The differences are that homeworkers do not have direct control over their production times and methods, do not market their services directly to the public or to other businesses (as would, for example, a self-employed tailor or dressmaker) and are instead dependent on the instructions and decisions of the employer or subcontractor for whom they work. A more detailed definition and description of TCF homeworking can be found in Appendix D of this report.

3.5.1 Structure of TCF homework

The International Labour Organisation (ILO) has noted that in TCF industries worldwide, “... for the most part, industrial homework is used at the clothing assembly (sewing) stages, for light work (sewing on buttons, hemming) or machine stitching of shoes ...” (ILO 1996, p. 65). TCF homeworking in Australia follows this pattern and is found mainly in women’s fashion apparel and other clothing. Other areas of TCF manufacturing which sometimes use homeworkers are footwear uppers, knitted textiles, soft furnishings, manchester and outdoor wear.

The geographic concentration of TCF homeworkers mirrors that of the industries employing them. The majority of homeworkers are located in particular suburbs of Melbourne and Sydney with smaller numbers in other capitals and larger regional centres such as Wollongong and Geelong. This concentration may be related also to the areas where potential homeworkers
tend to live and to the way in which they are recruited, which is often through local networks and media (see Appendix D).

Tasks performed by homeworkers include cutting, sewing, finishing, pressing and labelling, although cutting is less common because it requires automated machinery and strict quality controls. Typically, TCF homeworkers are given one or two tasks, with the subcontractor transporting components and products from one worker to the next in sequence. Some homeworkers specialise in particular production tasks such as attaching trims or fastenings and some specialise in particular types of products — for example, curtains, stretch fabrics, uniform dresses or fashion knitwear.

Although some homeworkers are employed directly by manufacturers, most are connected to the principal manufacturer (or sometimes a retailer) through a network of subcontractors.

The subcontractors coordinate the manufacturing process under contract from the manufacturer, who normally controls the design and distribution of the item, purchases the required materials and sets the contract price or piece rate for each item.

The chain leading from the manufacturer to the homeworker can be complex and the homeworker may not always know the identity of the principal manufacturer or retailer. Similarly, the principal may not always know whether a subcontractor is using homeworkers, although, under the industry’s Code of Practice, principals would be obliged to ensure that any homeworkers used by subcontractors are employed under legal terms and conditions (see Appendix D).

3.5.2 Significance and extent of TCF homework

As a production method, homework always has been characteristic of clothing manufacture in Australia and other countries. This reflects the relatively low cost of machinery, the labour-intensive methods used, the historical predominance of small, family-based firms and the fact that, in many cultures, sewing is seen as a traditionally ‘female’ occupation which is compatible with home and family responsibilities (ILO 1996, pp. 66–68).

From the manufacturer’s perspective, contracting production tasks reduces the normal labour on-costs of permanent and casual employees. Significant savings can be made also on plant and machinery costs as production facilities can be reduced or even eliminated. These costs are effectively transferred to the homeworkers, who generally own or lease their own machinery and equipment and work from their own home. On the other hand, homework-based
subcontracting can bring disadvantages of poor quality control, inconsistency of production and negative publicity. It may not suit all clothing or other TCF manufacturers, particularly those targeting the upper end of their market or who have a strong brand image and public profile (see Appendix D).

It has been argued that the clothing industry’s demand for homeworkers has increased significantly in Australia over the past decade. The recent Senate Economics References Committee Inquiry into Outworking in the Garment Industry concluded that in the clothing industry:

... manufacturing has moved from a factory based workforce to homeworkers. Homeworking is now so prevalent that it is not just a characteristic of the industry, the entire industry is structured around it. (Collins Report 1996b, p. xi)

The reasons to suspect such an increase in demand for clothing homeworkers stem from the increasing price pressures on the sector as a result of international competition and a continuing long-term shift in retail spending patterns away from clothing (as a proportion of household income). As noted above, some aspects of regulation of working conditions in factories are also likely to have had some influence. Demand for clothing homeworkers may have been influenced also by recent developments in the structure of the fashion apparel supply chain, whereby increasing importance is now placed on quick response times, product differentiation and flexibility in supply. For clothing manufacturers who have transferred production offshore, local homeworkers can be used to top up repeat orders quickly or add items to a range of products as required (see Appendix D).

However, the clothing manufacturing industry (where TCF homework is concentrated) has seen significant reductions in turnover, value added and recorded employment over the last decade (see Appendix B and Appendix C). Any increase in clothing homework would have occurred in the context of an otherwise shrinking industry.

It is notoriously difficult to obtain reliable data on homeworking employment in Australia or internationally (ILO 1996, p. 69–71). Official data offer varying estimates of TCF homeworkers in Australia, but, all are regarded as inaccurate for a number of reasons (see Appendix D). These estimates are:

- 7021 (ABS 1991, Census of Population and Housing, unpublished data);
- 4531 (ABS 1995, Labour Force Survey Supplement, unpublished data); and
- 50 000 (ATO 1991, unpublished data).

As a result of its 1994 ‘National Outwork Information Campaign’ the TCFUA estimated the total pool of people who sometimes undertake TCF homework at
around 330 000 (sub. 128, p. 32). This figure was disputed by TCF industry participants in the Senate Inquiry (1996a), but they did not present an alternative figure (see Appendix D).

Working from data supplied to this inquiry by TCF companies which use homeworkers, the Commission estimates that the current extent of homeworking in the clothing industry is equivalent to around 23 000 full-time workers. A smaller number of additional full-time equivalent homeworkers are working in other TCF industries. Given that the majority of homeworkers are thought to be working intermittently rather than full-time, it is not possible to calculate the total number of people performing TCF homework from these figures. Although the Commission has little evidence on this, the number of people undertaking TCF homework is unlikely to be as high as the TCFUA’s estimate of 330 000 or as low as the 50 000 estimated by the Australian Taxation Office (ATO) in 1991.

3.5.3 Remuneration

Clothing homeworkers are covered specifically by clauses 26 and 27 of the federal Clothing Trades Award 1982, regardless of whether they are employed directly or under contract. These clauses set out terms and conditions of employment for homeworkers which are approximately equal to those for factory-based workers and include methods for calculating piece rates for homeworkers based on award wage rates and standard time allowances per piece. These calculations do not factor in the cost of machinery, work space, electricity and incidentals.

The Award also requires respondent companies which employ homeworkers to register with a Board of Reference\textsuperscript{4} and to employ no more than 10 homeworkers at any one time. These requirements appear to have been widely ignored, and to be unenforceable, particularly at the subcontracting level of activity (see Appendix D).

The *Workplace Relations Act* lists conditions of employment for homeworkers as one of the 20 ‘allowable matters’ which can be included in awards registered with the AIRC. The Act requires that homeworkers’ pay and conditions are ‘fair and reasonable’ relative to those for factory employees.

In practice, the TCFUA and relevant community and welfare groups believe that the majority of TCF homeworkers do not receive their full award entitlements. In addition, they have reported long delays in payment for work completed as

\textsuperscript{4} The composition of a Board of Reference is defined within each award.
well as under-payment and non-payment of agreed amounts. While piece rate payments equivalent to as low as $2 per hour have been reported in the media, it is thought that typical piece rates are currently equivalent to around $7 per hour for proficient workers, which is still well below the minimum award rate of around $10.60 per hour.

While there is little substantiated evidence on the extent of the underground economy in TCF subcontracting, it is believed that payments to homeworkers are often in cash and rarely declared as income for taxation or social security purposes. Both the ATÖ and the Department of Social Security (DSS) recognise that such evasion is a significant problem in TCF homeworking, although neither has been able to estimate its exact extent (see Appendix D).

It has been claimed by some close to homeworkers that many receive social security benefits and that intermittent homeworking acts as a ‘top-up’ to this income. As in other cash economy sectors, legally claimed social security benefits can be used legitimately to top-up low and intermittent earnings. However, to the extent that illegal benefits and taxation evasion compensate for the low rates paid to homeworkers, they provide a subsidy, the benefit of which could accrue to anyone along the supply chain, from manufacturers to subcontractors or to other parties through to consumers.

The ATO has sought to overcome TCF cash economy taxation evasion by introducing a Reportable Payments System of identifying and tracking subcontracting payments and incomes. The DSS has sought to improve its data matching through this system in an effort to identify homeworkers potentially in receipt of benefits to which they are not entitled. These measures were preceded by a national ‘homeworker amnesty’ in 1996, which had an exceptionally poor response despite national publicity and a time extension (see Appendix D).

One of the key questions to arise from the TCF homework cash economy is whether demand for homeworkers would change if all TCF homeworkers in Australia were paid legal minimum award rates and conditions. It has sometimes been argued that if all homeworkers received award rates, most manufacturers currently using them would shift all or most of their production to cheaper offshore locations.

The TCFUA and others observed that TCF homeworking is largely concentrated in the fashion apparel sector which is not immediately suited to overseas production due to the short production runs and quick demand responses required by customers. The TCFUA also suggested that the fashion apparel sector may be better able to sustain any consequent retail price rises due to greater product differentiation and closely targeted markets (sub. 128, p. 22).
The local advantages for some forms of clothing manufacturing described in Chapter 1 imply that a proportion of the clothing currently produced by homeworkers would continue to be manufactured by them even if they were to be paid award rates. While the Commission has not been able to make a firm judgment regarding the proportion of homeworking which would be likely to remain under a system in which homeworkers were part of the formal economy, it takes the view that there would be a significant decline.

3.5.4 Occupational health and safety issues

As is the case with awards, homeworkers are included specifically in workers’ compensation legislation in most States. As for other employees, workers’ compensation insurance is the legal responsibility of the homeworker’s employer — either the principal manufacturer or their subcontractor. A homeworker who is genuinely self-employed will be responsible for maintaining his or her own workers’ compensation insurance. In reality, homeworkers often are not covered by any workers’ compensation insurance. If they become ill or injured as a result of their work, public health and welfare services are likely to be utilised, effectively transferring the costs from the private to the public sector.

The TCFUA and community groups reported that, after pay-related complaints, hours of work are the most common area of concern for TCF homeworkers. For many homeworkers, work contracts can be irregular and very intermittent. However, tight deadlines mean that the actual hours of work tend to be concentrated into a short period during which long hours may be worked. These work patterns are the consequence of seasonal flexibility and quick response demand structures.

Occupational health and safety problems reported by homeworkers generally result from inadequate facilities and equipment. They include physical exhaustion, respiratory illnesses, repetitive strain and overuse injuries, back and neck strain, eye strain, and injuries from unsafe or inappropriately installed machinery (see Appendix D).

The Commission’s inquiries into Workers’ Compensation in Australia (IC 1994b) and Work, Health and Safety (IC 1995c) reported the large costs borne by workers and the community as a result of unsafe working conditions, and emphasised the need to sheet a larger proportion of these costs home to the employer in order to create stronger incentives for prevention. The conditions under which homeworkers often work would appear to give considerable scope for employers to bear little if any of these costs, by evading their responsibilities.
to ensure a safe working environment. Also, some homeworkers may be unaware that they are legally entitled to workers’ compensation payments if they are injured, or may be disinclined to make a claim for fear that further work would not be forthcoming.

### 3.5.5 Supply issues

The two main groups making up the supply pool of TCF homeworkers in Australia are former TCF factory workers and recently arrived migrants (from Vietnam and other South-East Asian countries, China and to a lesser extent the Middle East and South America). There are a number of reasons why people choose this form of work. For some, it represents a lifestyle choice, offering the opportunity to earn an income from home in a flexible manner while undertaking other tasks — for example, caring for children or elderly relatives. This situation would be more likely to apply to more skilled or specialist homeworkers, perhaps with several years of experience in the TCF industries and knowledge of how to negotiate work contracts with manufacturers. These people are likely to have wider employment options.

However, social research in Australia and overseas indicates that, for the majority of TCF homeworkers, this type of work is not a lifestyle choice but the consequence of there being few alternative employment options available. This lack of choice in employment is due to labour market disadvantages including limited work skills, low formal qualification levels, family care commitments, little Australian work experience and poor English language and literacy skills (see Appendix D).

Community and welfare group concerns about the socio-economic effects of TCF homework generally relate to access to services for homeworking migrants. In addition to occupational health and safety issues (see above), specific concerns relating to homeworkers include social isolation, lack of career options, exploitation and abuse and the use of unpaid family members as assistants. Of prime concern is homeworkers’ information and access to English and vocational training, with research showing that TCF homeworking is a significant factor influencing the low participation and completion rates for recently arrived Vietnamese women in the Adult Migrant English Program entitlement to English language training (see Appendix D).

### 3.5.6 Responses to TCF homework

In general, government and industry responses to TCF homeworking are not aimed at discouraging homework. Instead, they recognise that homeworking
can have advantages for both the employer and the homeworker, and focus on minimising the negative effects and illegal aspects of some TCF homeworking practices. Examples of such responses in Australia are the ATO’s Reportable Payments System, the DSS’ data matching program and the TCFUA’s national homeworker information campaign (see above and Appendix D).

Recent international action on homeworking includes ILO ratification of Convention No. 177 and Recommendation No. 184 in June 1996 (applicable to all industries employing homeworkers). The Australian Government abstained from voting on these and has not adopted them. The minimum requirements for governments signatory to the Convention are the development of a national policy on homework and the collection of data on the extent and conditions of homeworking. In April 1997, the US Government (which also has not adopted the ILO convention) announced a voluntary ‘Workplace Code of Conduct’ which encourages US TCF companies and their contractors to abide by minimum employment conditions in all countries in which they operate (see Appendix D).

The Collins Report (1996a) concluded that further government and industry action is required on TCF homeworking in Australia. Firstly, it recommended the continued development of voluntary industry measures. The most significant existing industry measures are:

- the Homeworkers’ Code of Practice, drafted by the TCFUA, TFIA and Australian Retailers’ Association (ARA) in 1995 (see Appendix D); and
- ‘Deeds of Cooperation’, which have been in place between the TCFUA and individual companies since 1995. These Deeds require signatory companies to abide by all award conditions in their employment of homeworkers and to ensure that their contractors and subcontractors also do so (see Appendix D).

A number of companies have signed Deeds of Cooperation’, but so far only two have formally agreed to the ‘Code of Practice’. The ARA withdrew from negotiations for the Code of Practice in 1996 and has released instead a ‘Statement of Principles’ and its own ‘Code of Practice’ for use by its members (see Appendix D).

Secondly, the Collins Report recommended various government measures. These included the following:

- ensure that government agencies involved in garment procurement are party to a code of practice or deed of cooperation;
- improve data collection and monitoring of homeworking;
- clarify the legal status of homeworkers; and
• improve homeworker participation in English language and other training. Many of the recommended measures have been acted upon by the NSW Government (see below). Other relevant recommendations have been superseded by the termination of the TCFDA and the TCF Labour Adjustment Package (see Appendix D).

In May 1997, the NSW Government announced “a plan to protect outworkers in the clothing industry” (sub 162). This plan is intended to complement industry and TCFUA measures and includes:

• official endorsement of the TCFUA and TFIA ‘Code of Conduct’;
• a NSW Government ‘Code of Practice’ requiring award compliance by all TCF companies who supply NSW Government agencies;
• a pilot program of clothing industry homeworker co-operatives, funded by the NSW Government through the TCFUA ($150 000) and the Australian National Council on Refugee Women ($80 000) and supported by State payroll tax exemptions;
• a ‘Free of Exploited Labour’ logo and promotion campaign;
• an information kit for schools and community organisations;
• a multi-lingual telephone information hotline; and
• multi-lingual audio-tapes outlining homeworkers’ rights and responsibilities under WorkCover and Occupational Health and Safety legislation (sub 162).

Many of these measures would be of benefit also to TCF homeworkers in other States, although enforcement is sometimes a problem. The Commission therefore recommends that industry continue to pursue the adoption of the voluntary ‘Code of Conduct’ by retailers and all levels of government (which would require suppliers and contractors to government agencies to meet their legal obligations in the employment of homeworkers).

**Recommendation**

The TCF industries should continue the process of implementing voluntary agreements and the Code of Conduct with retailers and government agencies to promote adherence to legal minimum payments and employment conditions for homeworkers.
4 LABOUR ADJUSTMENT ISSUES

Employment in TCF manufacturing in Australia (and in other OECD countries) has been in long-term decline, while employment in the rest of the economy has grown substantially. For the TCF manufacturing industries as a whole, employment can be expected to continue to decline irrespective of industry assistance policies. Many forces including technological change, substitution of capital for labour, global specialisation and shifts in consumer tastes will cause this trend to continue. This means that the TCF manufacturing industries will continue to face significant adjustment pressures in the years ahead. This chapter examines the likely scale of the adjustment required, the capacity of the TCF manufacturing labour force to adjust and government measures which are designed to alleviate the costs of economic adjustment faced by some workers.

4.1 Employment trends

4.1.1 Projected employment trends in TCF manufacturing industries

TCF manufacturing employment declined by an average of about 2000 per year in the 1980s and slowed to an average of about 1000 per year in the 1990s (see Chapter 3). It is difficult to predict future TCF employment trends with accuracy, but the Commission’s assessment is that a similar rate of decline is likely over the next few years. This would bring TCF manufacturing employment to around 95 000 by the year 2000.

Economic modelling work undertaken for this Inquiry by the Centre of Policy Studies (CoPS) suggests that employment in the TCF industries will continue to decline even if tariffs are not reduced beyond 2000. The model estimates that in the absence of further tariff reductions after 2000, TCF employment is likely to fall to approximately 73 000 in 2013-14. If a more optimistic assumption is adopted regarding the rate of growth in TCF exports, the model estimates that TCF employment would decline less sharply to around 83 000 in 2013-14.¹

¹ Further information on the economic modelling is contained in Appendices L, M, N, O, P and IC 1997b.
These estimated declines in TCF employment in the model are accompanied by increases in employment elsewhere in the economy, with an initial rise in total employment, followed by a return to the aggregate employment levels which would otherwise have applied. The model does not assume that people leaving TCF manufacturing are themselves immediately (or even in the longer term) employed elsewhere in the economy. It does assume that jobs are created and they are filled, but not necessarily by displaced TCF workers.

Evidence in Australia and in other countries does not support the proposition that trade barriers significantly assist employment in the economy as a whole. Hence, the model assumes that in the long-run, the level of employment in the economy as a whole is not affected by the level of assistance provided to the TCF industries. The model generates this long-term result through an assumption that wage increases would counter any increased labour demand, forcing employment to return to 2000 levels. If this assumption is loosened (that is, if wage rises are weaker and employment is allowed to rise), then the short-term aggregate employment increase caused by the policy change could be sustained in the long-term.

Other estimates of future employment in TCF manufacturing provided to the Commission depended on different assumptions. The Council of Textiles and Fashion Industries of Australia (TFIA) suggested that TCF employment “would be about 70 000 [to] 75 000” by 2010 if its proposed program of assistance were undertaken, which included a tariff pause until 2005 and a substantial package of budgetary assistance (DR trans., p. 312).

Implications for the TCF manufacturing industries

These projected trends indicate that regardless of which industry policies are in place after 2000, the issue of labour adjustment for the TCF industries will need to be considered. This is not a simple task. As expressed by the TFIA:

> We know that there is going to be further change. So there does need to be a focus on labour adjustment. But it’s not just a matter of easing the path for the people displaced from the industry. It’s also a matter of building on the skills base and training of the people that are retained so that we do have a strong and viable industry into the future. (DR trans., p. 299)

As discussed in Chapter 3, there has been a progressive shift within the TCF industries towards a smaller number of middle and high-skilled jobs (such as management and trades) at the expense of low-skilled jobs (such as labouring and machining) (see Chapter 3 and Appendix C). On the factory floor, more TCF firms are seeking to improve staff flexibility, initiative and technical knowledge. For example, where it was previously common for each worker to
operate a single machine, workers may now be required to perform several functions to meet changing production demands. Other companies will require more specialised staff such as dye technicians in the leather industry or experienced quilting machinists in the textile products industry. These trends are likely to continue in line with ongoing technological development and rationalisation of the TCF industries.

For TCF companies employing workers with low English proficiency, improving workplace communications through English language training may take on increasing significance as they seek to re-skill their workers and introduce more flexible work practices. The role of English language training in TCF industry adjustment is discussed in Section 4.6.

### 4.1.2 Economy-wide employment trends

Changes in the TCF industries represented a small proportion of the changes which occurred in the labour market over the last decade. Loss of employment in parts of these industries, while serious for those affected, has occurred in a context of strong employment growth in the late 1980s, interrupted by recession and followed by more subdued employment growth in the 1990s. Major growth industries over this period have included information technology, communications, finance and insurance, health and community services, personal and other services, transport and storage, retail trade and education.

There has been a debate in recent years about the effects of globalisation on low-skilled workers in the traded goods sector of developed countries. Industries in developed countries which rely heavily on labour-intensive processes and low-skilled workers are made more vulnerable to import competition by growing world trade. It is argued that shrinking opportunities for low-skilled workers in the traded sector of developed economies will increase long-term unemployment.

This argument presupposes that the bulk of opportunities for low-skilled workers lie in the more labour-intensive parts of the traded sector. But most low-skill employment is now in the service sector and these areas are growing rapidly in all developed countries.

In Australia, the services sector has exhibited very strong employment growth, particularly at the lower skill levels (see Figure 4.1). Between 1987 and 1996, employment of sales and personal service workers over all industries increased by 470 000, from 14 per cent of the workforce to 17 per cent. In contrast, by 1996, low-skilled employment in TCF accounted for only about 1.4 per cent of the total number of low-skill jobs in Australia (see Appendix C). This trend has
been driven by changes in consumption patterns, demographic composition and lifestyles across Australia, with a higher proportion of average disposable income now being spent on health, education, communications, transport, leisure, recreational, financial and other services.

The new low-skill jobs being created in the services sector include a wide variety of occupations and activities. For example, the ASCO category ‘personal service worker’ includes waitress, child care worker, enrolled nurse, personal carer, tour guide and beauty therapist. Similarly, the broad ASCO category of ‘labourer’ includes trades assistant, packer, spray painter, gardening assistant, cleaner, storeman, security officer, kitchenhand, home maintenance and construction workers.

Many of these service jobs are in health, community and personal services, where the multi-lingual and multi-cultural skills of many people of non-English speaking background (including those currently working in the TCF industries) can be a strong advantage (see Box 4.3). This is not to suggest that all displaced
TCF workers will wish (or be able) to move into these jobs. However, other people, some of whom are currently unemployed or studying, will do so.

In interpreting these trends it should be noted that the increasing phenomenon of outsourcing across the economy has meant that in ABS statistics, many jobs previously classified as manufacturing are now counted as ‘services’. For example, if a manufacturer directly employs a security officer that person is counted as employed in manufacturing. If the manufacturer switches to an outsourced security service, the same job will be classified as a ‘services’ job. On the other hand, where a manufacturer is also importing, the staff employed in importing activities are likely to be counted as ‘manufacturing’ employees.

Finding

Irrespective of which industry assistance policies are in place after 2000, labour adjustment in the Australian TCF manufacturing industries will continue to occur. This process will involve a change in the types of skills required by the industries as well as a decrease in the total number employed in TCF manufacturing.

The areas of the Australian economy which are likely to offer positive employment prospects for low-skilled workers over the next decade are in the services industries, which include health, education, social services, aged care, child care, security, personal services, financial, banking and business services.

4.2 Mobility issues for TCF workers

As discussed in Chapter 3, the restructuring of the TCF industries over the past decade has involved significant adjustments in terms of both the occupational mix of TCF employees and the total numbers employed. This process has meant that many people in the TCF industries have changed their occupation or their employer, while others have left the TCF industries entirely. These patterns of change and movement in the TCF industries can be expected to continue in the foreseeable future.

4.2.1 General labour mobility in Australia

People can cease working in a particular job in a number of ways, including resignation, retirement, voluntary or involuntary retrenchment. The subsequent routes taken by people can be diverse also. They can:

- move into new employment in the same industry, with a new employer, location or occupation;
move into employment in a new industry, perhaps changing location and occupation as well;

- become unemployed;

- leave the labour market to undertake education and training, care for family members or undertake other activities; or

- retire from the workforce.

The mobility of workers in the TCF industries and in the economy as a whole provides some indication of the economy’s broad potential to adapt to — and accommodate — these movements. In comparison with many other OECD countries, Australia has a relatively mobile labour force. That is, people in Australia change employers, occupations, industries and locations relatively frequently in comparison with other OECD countries. In 1991, Australia had the third shortest median tenure of employment at around three and a half years, behind the US and the Netherlands with about three years (OECD 1993).

However, within this broad picture of a reasonably mobile labour force, there are pockets of higher and lower mobility. In 1994, while three quarters of Australian workers had been in the same job for fewer than ten years (including 22 per cent who had been in their job for fewer than 12 months), a quarter had been in the same job for more than 10 years. Generally, employment turnover is more frequent in lower paid and lower skilled jobs (EPAC 1996, pp. 86–88). This is partly because low-skill employment includes many short-term and seasonal types of work.

More specific aspects of labour mobility are inter-locational, inter-industry and inter-occupational change. In the 1994 ABS mobility survey, most job changing in Australia occurred within the same industry and/or occupation. That is, people changed jobs but the majority stayed in approximately the same type of work. However, 37 per cent of people who changed jobs also changed industry, 30 per cent changed occupation and 29 per cent changed location.

Other important types of mobility are the movements of people in and out of employment and in and out of the workforce (that is, a change in labour force status). It has been estimated that this type of mobility is extremely high in Australia. ABS data indicate that in each month in the year to March 1996, about one million people, or 15 per cent of the total labour force, moved between full-time employment, part-time employment, unemployment and being out of the labour force. These large flows between labour market status categories indicate that “many of these moves are transitory” (EPAC 1996, p. 88). That is, they indicate that many people in Australia change jobs or move between employment categories frequently and at short intervals.
4.2.2 Movement within and between TCF and other industries

ABS survey data indicate that, over the last decade, TCF employees have been less mobile than workers in other industries. Between 1988 and 1996, between 10 and 14 per cent of people employed by TCF companies in any year had changed their employer or job location in the previous 12 months (coming from either another TCF company or from outside the industry), compared with 14 to 19 per cent for all manufacturing and 18 to 25 per cent for all industries (see Appendix C).

These survey data relate only to people working in the TCF industries in a given year and do not reflect the additional movement of workers out of the TCF industry and into other industries or out of employment. (Inter-industry movements are shown in Box 4.1 below.) Given the high level of rationalisation and adjustment in TCF industries over the last decade, these data may underestimate also the degree of worker mobility within the TCF industry. They would not capture, for example, movements from formal TCF factory employment to informal TCF homeworking or self-employment.

Box 4.1 shows the movement of employees between TCF industries and other industries in the 12 months to February 1996. Around 13 700 TCF employees changed jobs in that period (that is, changed employer, business or job location). Of these, about 6400 changed to another TCF job and 7200 moved to another industry (1700 to other manufacturing jobs and 5500 to non-manufacturing industries). At the same time, around 1200 moved from another manufacturing industry into a TCF job and around 4100 people moved from non-manufacturing industries into the TCF industry.

These data do not include people leaving TCF employment who did not move into other formal employment, including those who became homeworkers or self-employed and those who retired, became unemployed or left the workforce. (These movements are discussed below.) Similarly, it does not include people moving into formal TCF employment from homeworking, unemployment, full-time study or other non-employment activities (such as unpaid home duties).

4.2.3 Movement out of TCF employment

As shown in Box 4.1, about 7200 former TCF workers gained employment in other industries in the year to February 1996, while about 5200 people moved from other industries into TCF employment. This type of movement in the labour market is ever-present and ongoing.
Impediments to TCF labour mobility

Evidence from the TCF Labour Adjustment Package (LAP) and the University of Melbourne *TCF Industry Study* indicates that many — but by no means all — displaced TCF workers who become unemployed find it difficult to gain subsequent employment in other industries. It is believed that these mobility difficulties are related to the general characteristics of some segments of the TCF workforce. For example, the Australian Chamber of Manufactures stated:

Many of the workers within the TCF industries are female, middle-aged, have low literacy levels, and English language problems. If these people are forced to enter the job-seeking market many will add to the growing problem of the long-term unemployed. For those seeking to find alternative employment in another industry, they may suffer from adjustment problems, requiring additional support and training. (sub. 87, p. 2)

**Box 4.1: Estimated employment flows between TCF manufacturing and other industries, February 1995 to February 1996**

<table>
<thead>
<tr>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Textiles, clothing footwear &amp; leather</strong></td>
<td>95 000 persons</td>
</tr>
<tr>
<td><strong>Other manufacturing</strong></td>
<td>Out of TCF: 7 200</td>
</tr>
<tr>
<td><strong>Other industries</strong></td>
<td>1200</td>
</tr>
<tr>
<td><strong>Into TCF: 5 300</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Textiles, clothing footwear &amp; leather</strong></td>
<td>93 000 persons</td>
</tr>
<tr>
<td><strong>Other manufacturing</strong></td>
<td>1700</td>
</tr>
<tr>
<td><strong>Other industries</strong></td>
<td>5500</td>
</tr>
<tr>
<td><strong>Textiles, clothing footwear &amp; leather</strong></td>
<td>6400+</td>
</tr>
</tbody>
</table>

**Note:** Data do not include movements of people between employment and unemployment or non-labour force categories (retirement, not in the labour force). Total employment data shown differs from *Labour Force Survey* data used elsewhere in this report.

**Source:** Estimates based on unpublished ABS *Labour Mobility, Australia*, data, February 1996
These demographic and skill characteristics are common, but not universal, among currently employed TCF workers. (They were more prevalent in the past — see Chapter 3 and Appendix C). In summary, ABS data for May 1997 show that:

- 56 per cent of TCF employees were aged 35 or older, compared with 47 per cent for all manufacturing and all industries. 9 per cent were aged 55 or older (compared with the average of 9.6 per cent for all manufacturing and all industries);
- 59 per cent of TCF employees were women, compared with 26 per cent for all manufacturing and 43 per cent for all industries. 41 per cent of TCF workers were married women, compared with 17 per cent for all manufacturing and 26 per cent for all industries;
- 41 per cent of TCF employees were born in a non-English speaking country, compared with 23 per cent for all manufacturing and 13 per cent for all industries; and
- 68 per cent of TCF employees had no recognised post-school qualifications, compared with 54 per cent for all manufacturing and 48 per cent for all industries (ABS 1997f).

It is generally recognised that factors such as being older, being born in a non-English speaking country and having fewer skills and qualifications can increase an individual’s level of disadvantage in the labour market and hence the chances of becoming long-term unemployed, irrespective of former industry of employment. Although the TCF workforce comprises high proportions of people with these characteristics, these characteristics are not unique to TCF employees. Indeed, Australia’s more intensive employment assistance services (which from May 1998, will be available only to unemployed people in receipt of certain social security benefits) are targeted at exactly these groups with no differentiation between former industry of employment (DEETYA 1996b, p. 90). These programs are discussed in Section 4.5.

**Experiences of retrenched TCF workers**

In recognition of these issues, much concern has been expressed by participants in this Inquiry regarding the employment prospects of displaced TCF workers. An indication of the subsequent experiences of people retrenched from the TCF industries (though not necessarily of the experiences of other former TCF workers) is available from the *TCF Industry Study* at the University of Melbourne. This longitudinal survey was commenced in 1993 as part of a
DEETYA evaluation of the TCF LAP. The original sample consisted of 605 people retrenched from TCF jobs around Australia between 1991 and 1993.2 The timing of these retrenchments — during general economic recession in Australia — means that the immediate labour market prospects of this sample group were worse than those that would have been faced by workers retrenched in the more buoyant economy of the later 1990s. The Study’s results should therefore be thought of as indicative, but perhaps not wholly representative, of the likely employment prospects of any TCF workers retrenched in the future.

The first results from the *TCF Industry Study* in 1995 (based on 590 participants after two interviews) found that the strongest predictor of job search success outside the TCF industries was age (success decreasing with age), closely followed by former occupation, skill and education level, English language proficiency (non-English speaking background people having poorer employment outcomes) and the type and duration of post-retrenchment training. The longer a person had worked in TCF the less likely he or she was to find a job, although this may have been related also to their age (Webber *et al.* 1995).

Training was found to have a significant effect on outcomes. Whether participants chose to undertake training or not was in part self-selective (reflecting existing skills, education levels and age) and in part related to the administration and promotion of the TCF LAP and other training activities in the local area. Training undertaken included English language and literacy, vocational courses and a combination of both. By August 1994, 60 per cent of the 590 interviewed had undertaken some training (including 24 per cent who were still in training) and 40 per cent who had not entered any training. Nearly a quarter of the ‘no training’ group withdrew from the workforce but 61 per cent found paid employment (including 22 per cent who found employment within a month of retrenchment), despite their retrenchment occurring during a time of general economic recession (Webber *et al.* 1995).

For the group who had completed their training (approximately a third of the sample), 63 per cent had found employment and 9 per cent had left the labour market. Former TCF workers who had retrained were much more likely to find work in an industry other than TCF, such as social services or hospitality. Some of those interviewed had completed multiple training courses, moving sequentially from lower to higher education and skill levels. They stated that

---

2 The *TCF Industry Study* sample was stratified by age, location and English or non-English speaking background. According to researchers involved in the project, the stratification process “over-sampled skilled, younger and English speaking background workers ... and under-sampled women and the older, migrant workers” but allowed for sufficient numbers to weight and analyse the differing experiences of each group (Weller 1997a, p. 5).
they had gained personal satisfaction and confidence as well as labour market benefits from their studies (Webber et al 1995).

Long-term labour market outcomes (original data) from the TCF Industry Study are shown in Table 4.1. Overall employment rates improved slowly over time, to just over a third working full-time and half working in total at four years after retrenchment. However, much of this employment was temporary or casual rather than permanent in nature (Weller 1997). The proportion leaving the workforce increased and the proportion unemployed decreased with time from almost one half at six months to about one sixth at four years after retrenchment. At all time points, employment rates were significantly lower — and non-participation rates significantly higher — for older (45 or over) and non-English speaking background people (Weller 1997). It should be noted that those who had been retrenched early in the sample period (in 1991) would have faced a tougher labour market than those retrenched later (in 1993), as the recession ended and employment conditions improved. People retrenched in the late 1990s or in future years will face different labour market conditions again.

Table 4.1: TCF Industry Study. Labour market outcomes, 6 to 48 months after retrenchment (original data)

<table>
<thead>
<tr>
<th>Time after retrenchment:</th>
<th>Working full time (%)</th>
<th>Total working (%)</th>
<th>Training (%)</th>
<th>Unemployed (%)</th>
<th>Not in the workforce&lt;sup&gt;a&lt;/sup&gt; (%)</th>
<th>Total&lt;sup&gt;b&lt;/sup&gt; (No.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 months</td>
<td>12.6</td>
<td>16.8</td>
<td>28.7</td>
<td>48.5</td>
<td>6.0</td>
<td>602</td>
</tr>
<tr>
<td>12 months</td>
<td>16.6</td>
<td>24.2</td>
<td>33.4</td>
<td>34.7</td>
<td>7.7</td>
<td>596</td>
</tr>
<tr>
<td>24 months</td>
<td>25.0</td>
<td>38.1</td>
<td>21.8</td>
<td>24.1</td>
<td>16.0</td>
<td>569</td>
</tr>
<tr>
<td>36 months</td>
<td>33.2</td>
<td>47.1</td>
<td>12.3</td>
<td>20.5</td>
<td>20.1</td>
<td>527</td>
</tr>
<tr>
<td>48 months</td>
<td>35.4</td>
<td>51.8</td>
<td>7.2</td>
<td>16.6</td>
<td>24.4</td>
<td>483</td>
</tr>
</tbody>
</table>

Note: Retrenchment dates vary from 1991 to 1993.

<sup>a</sup> People of working age (under 60 for women, under 65 for men) who are not in the workforce. Reasons include home duties and discouragement from jobseeking.

<sup>b</sup> Total does not include survey participants who were at or over retirement age in the year of interview (over 60 for females and over 65 for males).


Inquiry participants reported examples of TCF retrenchments in regional areas which were not dissimilar to the immediate outcomes documented in the TCF Industry Study. For example, Pacific Brands reported that about 60 per cent of workers retrenched from factories closed in Horsham, Taree and Maryborough in 1996 were unemployed three to nine months after retrenchment (sub. 136). Similarly, the Australian Wool Processors Council reported:
In the case of a recent closure of a textile manufacturing plant in regional Victoria, 95 of the 108 employees made redundant received retraining. Of these, 11 obtained full time employment, 18 part time, 14 casual, but 44 (nearly 50 per cent) remain unemployed [immediately after retraining]. (sub. 79, p. 13)

In Victoria, the State Community and Business Employment Program reported poor immediate employment outcomes for recent clients from the TCF industries. Twenty seven per cent of former TCF workers registered in the program after July 1996 had been placed in employment by July 1997 (that is, within 12 months of registration). Of these, 54 per cent were re-employed in the TCF industries, 20 per cent in other manufacturing and 26 per cent in the service sector. Older people and those with English language difficulties were less likely to be immediately placed in employment (Government of Victoria, sub. 265, Appendix 1).

It should be recognised that the difficulties experienced by some (but by no means all) retrenched TCF employees in finding new employment are not unique to this group. Low-skilled retrenched workers can have difficulty finding alternative employment regardless of their former industry of employment. This applies particularly to those living in areas with fewer alternative employment options at the low-skill levels and to those with poor English language skills in addition to low formal qualifications (Bertone et al. 1995). This was very much the case during the recession of 1990-92, though it may be less severe in the subsequent environment of stronger employment growth (Ackland and Williams 1992 and Bertone et al. 1995).

It should be recognised also that TCF tariff reductions may lead to increased employment in other industries, especially those for which TCF products are major inputs, such as furniture, tourism and health services. These industries are also large employers of low-skilled workers.

4.3 Regional issues for TCF employment

4.3.1 TCF employment in suburban locations

The concentration of TCF employment — particularly clothing and footwear employment and homeworking — in metropolitan areas should facilitate the efforts of former TCF workers to find employment. However, some areas of high TCF employment coincide with areas of higher than average unemployment. For example, the statistical divisions of Fairfield–Liverpool in Sydney and North West Melbourne, which are home to many TCF producers, had average unemployment rates of 16 per cent and 14 per cent, respectively,
from February 1992 to February 1997 (ABS 1997f). TCF workers from non-English speaking backgrounds tend to live and work in suburban, rather than regional, locations. As discussed in Section 4.2, TCF workers with poor English proficiency are more likely than other workers to experience difficulties moving into non-TCF employment.

The City of Darebin (covering the inner North of Melbourne) has estimated that its area has an unemployment rate of 17 per cent (sub. 178). The City has a high proportion of non-English speaking background residents and workers and many TCF manufacturing sectors are represented in the area:

“[TCF] industry accounts for 3345 jobs in 142 businesses ... More than half of these businesses employ less than 10 people. The City of Darebin's resident population is characterised by a traditionally "blue collar" workforce, of which 2,638 are employed in TCF manufacturing. (sub. 178, p. 3)

Displaced TCF workers in such suburbs may face difficulties finding employment in their immediate area, but they also have access to the wider metropolitan labour markets in their search for work.

4.3.2 TCF employment in regional locations

Outside the capital cities, the main TCF employment centres in New South Wales are Wollongong and Newcastle, and in Victoria, Geelong and Warrnambool in the West and Wangaratta through to Albury-Wodonga in the North (see Appendix C). A number of towns in other regions — such as Albany, Orange, Moe and Devonport — are also home to TCF manufacturers.

Between 1985 and 1997, TCF manufacturing employment in regional Australia increased by 11 per cent (2500 jobs). However, this growth was not evenly distributed, with most of it occurring in regional NSW and Queensland (see Chapter 3). In regional Victoria and other traditional TCF areas, TCF activity is not as significant as it once was. This reflects the long-term decline in total TCF manufacturing, but it is also part of wider rationalisation and integration trends in manufacturing and industrial activity (IC 1993). Some manufacturers have moved from small regional locations to larger regional centres, capital cities or overseas production. Others have chosen to consolidate previously scattered facilities into fewer locations.

This has produced a ‘clustering’ effect as activity gravitates towards particular regions. For example, the fashion apparel industries are based in Melbourne and Sydney; wool processing, carpets and surfwear are prevalent around Geelong; and textile mills are common in northern Victoria and Tasmania. By contrast, the leather industry is far less centralised due to the need for proximity
to hide supplies. Tanneries tend to be located in coastal areas, largely because even though the effluent is treated before being discharged, “salt may present particular disposal problems in inland areas, especially where land salinity is already an issue” (Australian Leather Industries Association, sub. 229, p. 8).

The reasons behind TCF manufacturers’ regional location decisions are varied. Many regional TCF manufacturing facilities are part of a larger corporate structure, with head offices — and locational decision-making — based elsewhere. For example, the Sydney-based textile company Supertex manufactures in regional Goulburn (sub. 17), while Melbourne-based Pacific Brands owns a portfolio of 41 TCF factories around Australia (sub. 44).

Some TCF manufacturing activities were established or relocated to particular regions in response to specific government concessions and incentives. For example, textile products producer Sheridan Australia is currently considering the relocation of its Tasmanian facilities to Adelaide to ‘take advantage’ of South Australia’s ‘rebate on payroll tax for all exports’ (DR trans., pp. 82–83).

As discussed in Chapter 8, in the past, several such companies have experienced difficulty maintaining profitability after the cessation of local concessions. This has necessitated relocations, asset sales and other rationalisation strategies, sometimes involving plants or firms in a series of mergers and acquisitions. Clothing manufacturer Yakka stated that in the past,

Yakka was encouraged by Government policy to establish its manufacturing operations in regional Victorian areas ... The reverse now seems to be the case, ... making the closure of these facilities inevitable. (sub. 257, p. 2)

Regional TCF manufacturers operating in less labour-intensive (and potentially more internationally competitive) areas of TCF activity may be able to build upon local advantages to improve their efficiency and competitiveness relative to other producers. Local advantages in regional locations can include proximity to raw materials (such as leather and wool), an experienced, stable workforce, low land costs and potentially lower effluent treatment costs (of particular importance to early stage processors, dye-houses and some textile producers). This process may involve a combination of product development, investment in plant and equipment, improved quality control, new production methods and work practices and additional training for employees. For some firms, it will involve further rationalisation of production and employment in particular locations.

For example, Australian Leather Holdings (ALH) recently built two regional tanneries — Rosedale, Victoria (1996 at a cost of $18 million) and Darkan, Western Australia (1994 at a cost of $8 million) — to supply its leather processing plants at Preston and South Fremantle. The greenfield sites allowed
ALH to install state-of-the-art processing technology and effluent treatment on lower-cost land and in closer proximity to hide supplies than would have been available in a suburban location (sub. 140).

Labour adjustment in regional locations

Regional participants in areas with a relatively high concentration of later-stage TCF manufacturing expressed concern that sluggish growth in regional industry and employment would mean that any future displaced TCF workers might experience difficulty in finding alternative local employment. The Companies and Community of North Eastern Victoria and Albury stated that TCF activity accounted for 4.5 per cent of employment in their region in 1996, having declined from 7.6 per cent of employment in 1984. They felt that any further decline would be difficult to absorb:

Job alternatives are difficult enough at any time in non-metropolitan centres, but even more so at present, with a stagnant economy. Over 1996, Albury–Wodonga’s annual census indicated that the slow recovery from the 1990 recession has continued, and that a net increase of 504 jobs (+1.4 per cent) was recorded with an estimated 1.7 per cent increase in 1997 ... these figures are by no means spectacular, and any adverse trends or sectoral declines affect shaky confidence. In Albury–Wodonga’s case, a further 40 jobs are likely to be lost in the TCF sector. (sub. 37, p. 6)

Concern was expressed also regarding potential adjustment costs in locations where individual TCF factories (which are perceived to be at risk of closure or downsizing) are significant employers in a small to medium-sized town. For example, Devonport in Tasmania has two TCF factories which together employ over two hundred people — a significant number for a town with 25 000 people, an ageing population and low growth rates (sub. 56).

Similarly, Wangaratta in Victoria (also with a population of around 25 000) has around 900 TCF employees concentrated in a few large plants and an older population. However, it also has a lower than average unemployment rate (around 8 per cent) and employment growth in other fields, including growth from new industries moving into the region (DR trans., p. 487).

Where local employment alternatives are not immediately available, declines in TCF activity and employment can have adverse flow-on effects in the short term, and have the potential to depress the local economy temporarily or to strain local employment assistance services. The ability of a particular town or region to adjust to these structural shifts will:

... depend on the diversity of the region’s economy, the characteristics of its population, its natural endowments of other natural resources and its location.
... In all cases ... the efficiency with which adjustment takes place will be an important influence on outcomes for regions in the longer term. (IC 1993, p. 35)

Assistance measures are available through all levels of government to ease this adjustment process. The Assistance to Depressed Regions Program is described below. Other, more general, industry and investment programs are provided through AusIndustry (see Chapter 8) and through state and local government agencies. With all regional assistance, care should be taken to avoid providing incentives to footloose companies which are not viable without government support or which are likely to relocate or downsize when the incentive ends, thus causing further adjustment problems in the future.

In relation to the encouragement of effective regional investment, the Mortimer Review of industry programs found that industry-specific assistance and taxation concessions should be avoided but that:

Government can play a role in coordinating projects at the regional level by filling information gaps and bringing together key players. ...In other cases, provision of infrastructure may facilitate development of a series of projects, for example through provision of rail or road infrastructure. (Mortimer 1997, pp. 91–92)

These strategies can assist all regional industries, including TCF activity. Coordination projects can be used to encourage economies of scope, supply networks and cooperation in research, training and marketing. Northern Italy is often cited as an example of effective local coordination in TCF manufacturing. While noting that this has developed over many decades and is built partly on complex, long-standing family and community networks, the Italian system of close integration and cooperation in marketing, research, product development and training between local TCF manufacturers, suppliers and wholesalers could provide a suitable model of industry development for regions of high TCF activity (Werner International 1994). Initiatives such as the proposed Australian Fibre Training Education Centre in Geelong and the promotion of ‘Quick Response’ networks appear to be heading in this direction.

4.3.3 Employment assistance in regional locations

When change occurs in the pattern of employment in regions, adjustment can involve intra-regional movements and inter-regional movements. Even in the same region, changes that might affect some industries adversely may benefit others. Reduced assistance for the TCF manufacturing industries may affect TCF employment in a particular region adversely, but it would provide some help to employment in other activities in the same region, mainly through the
reduced cost of TCF products and a consequent increased spending on other items.

Regional labour assistance

Given the geographic concentration of the TCF industries and the higher than average unemployment experienced in some relevant regions, one option for improving the availability and effectiveness of labour adjustment assistance for former TCF workers is to provide additional assistance services on a regional basis. Regional employment assistance can be used as an adjunct to general employment services by providing additional funding and support to existing services (for example, to meet higher than anticipated demand) or to operate additional, locally targeted programs and projects.

Funding for regional assistance employment initiatives is available from the Assistance to Depressed Regions Program, which is scheduled to continue after DEETYA’s new assistance services structure is introduced in 1998. This program is linked to the Government’s broader regional economic development strategy which also includes regional infrastructure development and small business support (Sharp 1997). The program is:

A dedicated funding programme [which] will support strategies to improve the skills base of regions experiencing adjustment pressures or high levels of unemployment. Under this programme project funding will be made available for initiatives which:

- assist regions to adapt to structural change, diversify their industry base or respond to major retrenchment activity;
- consult young people and employers to identify strategies for increasing opportunities for youth employment and training;
- foster entrepreneurship and the establishment of new small businesses; and
- provide local unemployed jobseekers with the skills to compete for emerging job opportunities. (Sharp 1997, p. 20)

Examples of how this has operated to date include the establishment of local environmental and community employment projects and ‘Small Business Incubators’ which provide services and facilities for new small businesses (DEETYA 1996d, pp 136–137). Complementary regional business and infrastructure programs are available from AusIndustry and other government agencies as part of the regional development strategy.

From 1994 to 1996, the Assistance to Depressed Regions Program was linked to a network of 58 Area Consultative Committees, which were composed of local employers, organisations, councils and community groups. In 1996-97,
DEETYA piloted a replacement network called ‘Regional and Community Employment Councils’ but ‘the Government has decided not to proceed’ with them (sub. 264, p. 10).

Under the proposed ‘FLEX’ framework of employment assistance delivery, many of the organisations expected to tender as service providers will be local rather than national providers (DEETYA 1997c). This means that in some areas, generally available employment services will have a stronger local focus than may have been the case in the past.

Other DEETYA employment and training services are to be put out to tender in a similar manner. For example, the Entry Level Training Support Service (for apprentices and prospective employers) currently is being piloted in the Wangaratta region for agribusiness and other local industries by local training providers, employer groups and council services (DR trans., pp. 491–494).

Local councils participating in this Inquiry identified local infrastructure and microeconomic reform as significant issues for regional development and employment growth. Most councils also undertake a range of development and promotion activities. For example, the City of Greater Geelong has:

... done a number of strategic studies on the wool industry, the manufacturing industry and the seafood industry, ... undertaken business opportunities in relation to food, aqua-culture, wool storage and distribution, manufacturing opportunities and later stage processing. ... We are preparing to focus on IT, exploring fibre optic infrastructure and we promote Geelong as a service centre for the South-western region servicing education, health and tourism. (DR trans., p. 142)

Inter-regional labour assistance measures

Moving to a new location to find work can be a difficult and expensive process. Workers and their families may be emotionally attached to particular regions, and feel constrained by factors such as having children enrolled in local schools and close proximity to friends and family members. Besides these factors, there are financial costs associated with seeking employment in a new location, which place burdens on low-income households in particular.

Until 1996, DEETYA mobility assistance was available for unemployed people needing to travel to job interviews or relocate for job offers. However, eligibility was limited (only those who had already organised an interview or who had an offer of employment were eligible) and the program was not widely utilised until its last year of operation (DEETYA 1996d). A mobility allowance was also a part of the TCF LAP. The low take-up of this allowance mirrored the low participation in the general mobility program available at the same time. No assistance was (or is) available to employed people wanting to relocate.
either to retain their current employment (where this is not paid for by the employer) or to change to another employer. Although it may be possible for the Assistance to Depressed Regions Program to include such assistance, it seems unlikely that locally developed initiatives would include activities aimed at depopulating the local area.

4.4 Removing impediments to employment adjustment

Governments can do a number of things to help smooth the adjustment path for the economy as the TCF industries adapt to change. Governments can remove impediments to:

- growth of TCF firms which are able to compete in a low protection environment; and
- the ability of the rest of the economy to assimilate labour and other resources which are displaced from declining TCF industries.

The Commission’s recommendations elsewhere in this report are designed to remove impediments to the operation of the TCF industries. For example, improving the operation of the chemicals approval process for the leather and textile finishing industries would be a useful and inexpensive way of assisting these industries (see Chapter 5). More generally, removing current anomalies in the TCF tariff structure would reduce artificial impediments to efficient development of the industries (see Chapter 11).

There are other impediments to adjustment in the economy more generally. These factors hinder the growth potential of TCF firms, and their capacity to withstand change. They also hinder growth in the rest of the economy, which weakens demand for TCF and other products and makes it more difficult for labour and other resources displaced from TCF to be re-employed in other sectors.

These types of impediments have been examined by the World Bank and more recently by the OECD Jobs Study (1994b). The OECD study examined the experiences of employment and structural adjustment across member countries, and developed a strategy to improve countries’ capacity to adjust to change, as well as their capacity to innovate and be creative. Nine recommendations were developed to improve conditions for job creation, which were to be implemented by governments in a coordinated manner. These recommendations are contained in Box 4.2. While considerable progress has occurred in Australia on several fronts, there are some areas in which substantial reform could still be
beneficial, including labour market reform, vocational training, social welfare policy, business costs and taxation.

<table>
<thead>
<tr>
<th>Box 4.2: OECD Jobs Study Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable, (that is non-inflationary).</td>
</tr>
<tr>
<td>2. Enhance the creation and diffusion of technological know-how by improving frameworks for its development.</td>
</tr>
<tr>
<td>3. Increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers.</td>
</tr>
<tr>
<td>4. Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation or expansion of enterprises.</td>
</tr>
<tr>
<td>5. Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular for younger workers.</td>
</tr>
<tr>
<td>6. Reform employment security provisions that inhibit the expansion of employment in the private sector.</td>
</tr>
<tr>
<td>7. Strengthen the emphasis on active labour market policies and reinforce their effectiveness.</td>
</tr>
<tr>
<td>8. Improve labour force skills and competencies through wide-ranging changes in education and training systems.</td>
</tr>
<tr>
<td>9. Reform unemployment and related benefit systems — and their interaction with the tax system — such that societies’ fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of labour markets.</td>
</tr>
</tbody>
</table>

*Source: OECD 1994b, p. 43*

### 4.4.1 Labour market reform

One area in which Australian progress towards a more adaptable and flexible economy has been relatively slow is labour market reform, an area highlighted by the OECD as being important to address structural unemployment.

TCF firms’ capacity to withstand change is likely to be inhibited by unnecessarily restrictive labour market practices contained in the TCF awards (see Chapter 3). Also, the ability of other sectors to employ displaced TCF
workers may be inhibited by similarly restrictive clauses found in other awards. The imminent review of awards as a result of the *Workplace Relations and Other Legislation Amendment Act 1996* is designed to address these problems. While the new arrangements will limit the content of awards to 20 ‘allowable matters’, there may still be scope for non-essential or unnecessarily restrictive clauses to remain.

The ability of regions to adapt to structural change may be constrained by the fact that minimum (award) wages and conditions of employment do not make allowances for differences in labour market conditions across regions. Current award conditions may reflect labour market and other conditions in city areas, and may not always be relevant in some regional areas. This will affect TCF firms located in regional areas, as well as other firms in the region which otherwise might be more capable of absorbing displaced TCF labour. The Commission’s inquiry into Impediments to Regional Industry Adjustment (IC 1993, p. 116) argued that the benefits of more flexible labour market arrangements (although still involving a set of minimum ‘safety net’ conditions, including wages) to regions could include:

- allowing the unemployed (especially those with lower skills) in regions greater access to a job, thereby providing potential to acquire skills and to move up the ‘escalator’ into higher paying employment;
- preserving the viability of firms and employment in times of crises; and
- promoting longer-term wage divergence across regions to encourage investment and growth.

As noted in that report, the Commission considers that the special characteristics of labour markets mean that a market-clearing role for wages can be overstated. That does not mean, however, that wages play no allocative role in the labour market. While labour market flexibility may not be a complete answer to the problems of unemployment and insufficient labour mobility, other mechanisms to address these problems are likely to be less effective in the absence of labour market flexibility.

The fixed relativities between minimum wages paid to different occupations under awards also may be inhibiting labour market adjustment in the economy generally, and hence its ability to adapt to changes in employment demand across industries. Australia’s emphasis on ‘traditional’ wage relativities fails to take account of shifts in demand and differential productivity movements over time. The capacity of some firms to pay over-award wages reduces this effect to some extent.
 Reform in the area of vocational training also has the potential to smooth the labour adjustment process. Training infrastructure needs to take into account the requirements of growing TCF sectors. Even in sectors in decline, the movement towards fewer, more highly skilled or flexible workers will require a more effective and efficient training network. The lack of training courses for some specialist TCF positions may be inhibiting the progress of some firms (see Chapter 3).

The availability of effective training more generally, including English language training, will also be important to enhance the mobility of displaced TCF workers (including homeworkers), giving them a better chance of securing alternative employment (see Section 4.5).

4.4.2 Social welfare

Social welfare policies can sometimes create impediments to the physical movement of displaced workers and their transition to other work. As recommended by the OECD, governments need to design social welfare measures to meet their equity objectives while at the same time reducing the negative effects such programs can have on efficiency. Poverty traps — in which people have little incentive to accept low-paid jobs because of high effective marginal tax rates after losing benefits such as part of their unemployment benefits, public housing, Healthcare cards and travel concessions could possibly prevent displaced TCF workers from moving into other areas quickly. While considerable work has been done to try to address these issues (see, for example, the Committee on Employment Opportunities, 1993), there remains a certain lack of coordination between different types of welfare policies, such as public housing, rent assistance, Healthcare cards, public transport concessions and social security payments, inhibiting further progress in this area.

4.4.3 Enhancing labour mobility

Increasing the mobility of the workforce is a vital element in reducing the costs of structural change in the economy. As discussed below, access to vocational and other training is an important factor in enhancing such mobility. This training can be provided through labour market programs, general training and education institutions or by employers who may be seeking specific skills.

Another area through which mobility could be enhanced is taxation reform. For example, the imposition of stamp duties on the purchase of houses and
mortgages increases the costs of moving, and represent a tax on mobility. The Commission favours less distortionary methods of raising tax (IC 1993).

Unlike some other countries (such as the US), expenses incurred by an employee in preparation for obtaining or changing a job are not allowable as income taxation deductions in Australia because they “come at a point in time too early to be regarded as being incurred in gaining assessable income” (CCH 1997, para. 14-200).

This policy means that the costs of travel and relocation for employment are generally not allowable as deductions. Even workers who are required by their employer to relocate or face possible retrenchment are not always able to claim a deduction for moving expenses (CCH 1997, para. 14-200). Some employers choose to bear some of the cost of staff relocation. However, employers could be expected to be less likely to meet the relocation costs of staff who do not possess specific, scarce skills. Relatively low-skilled workers are more likely to bear fully their own relocation costs, which may present difficulties for low-income families. Allowing tax deductions for some relocation expenses for employment purposes could minimise financial disincentives for people to leave particular regions for new or existing employment. However, it would not provide effective assistance for those without an income, including those who do not find employment even after relocating. Options for limiting the potential costs of allowing general tax deductions for relocation expenses could include targeting the deductions to particular groups of taxpayers (for example, low-income earners) or to particular locations (for example, relocating away from high unemployment areas).

In a similar manner, deductions for self-education expenses are currently allowable only where they relate to the individual’s current employment and not to future employment. For example, a TCF worker cannot claim a tax deduction for self-education expenses for training for another industry or for self-employment, even if the employee’s current job is in danger of being lost. For those who are unemployed, deductions for self-education expenses are not allowable, although other measures are available to assist with training including Austudy allowances for approved full-time study. It is also not possible for unemployed and low-income people to claim their self-education expenses against the income of their spouses. As discussed in Chapter 3, a high proportion of TCF workers is married.

As for all training initiatives for jobseekers and others, expanded tax deductions for self-education would be aimed at improving labour market flexibility rather than at creating new jobs directly — demand for the skills of newly retrained people would be needed in order for them to find new employment. While there
would need to be limits to the type of self-education eligible, there may be scope for revisiting tax deduction options for relocation and self-education.

4.5 Employment assistance programs and services

Evidence from participants in this Inquiry and modelling work undertaken for the Commission and for the TFIA indicate that between 20,000 to 30,000 people are likely to be displaced from TCF manufacturing employment in the decade after 2000, regardless of Government industry assistance policies (see Section 4.1).

Displaced TCF manufacturing workers are likely to take a range of paths over the next decade, depending on their age, location, skills and other factors:

- many can be expected to reach pensionable age over the next decade. Around 9 per cent of employees were aged over 55 in 1997 and will reach pensionable age before 2002 (aged 60 for women) or 2007 (aged 65 for men). At least another 10 per cent could be expected to retire in the decade to 2010;
- some will move directly into employment in other industries (see Box 4.1). Others will do so after a relatively short period of unemployment or training;
- some displaced TCF workers will leave the workforce due to discouragement or to undertake studies, child-care or other activities; and
- some displaced TCF workers will become unemployed, and are likely to require assistance with training and obtaining employment.

Employment outcomes from the TCF Industry Study, the TCF LAP (now discontinued) and other examples indicate that over the next decade, many (but not all) working-age displaced TCF workers could become unemployed before finding other work, and may require assistance with training and employment. It is therefore necessary to examine what types of assistance are appropriate and what will be available to assist this group of workers.

4.5.1 Types of employment assistance programs

There are four broad types of employment programs which can be used by governments seeking to assist jobseekers and reduce unemployment. They are:

- job broking (that is, matching jobseekers to vacancies);
- training in vocational, language, and other skills, which can be conducted through a number of formal and informal methods;
4. LABOUR ADJUSTMENT ISSUES

- employment subsidies for employers creating new positions and/or employing targeted jobseekers; and
- direct job creation (for example, through infrastructure and development projects).

As summarised by the OECD (Calmfors 1994), the benefits of labour market programs for individual participants can include preferential access to training and work experience opportunities, better job matching information, assistance in active jobsearching, and, importantly, a lessening of the effects of skills atrophy and loss of self esteem which can lead to long-term unemployment or withdrawal from the labour market. For the individual employer, programs can speed up the recruitment process by providing faster, more accurate information about potential employees. In the case of employment subsidies, they can reduce the actual cost of employment for the duration of the subsidy.

For the labour market in aggregate, labour market programs can maintain or increase the effective supply of labour for a given wage or skill level by encouraging people to improve their skills and actively continue to search for work rather than withdrawing from the labour market. This is of particular benefit during times of rising labour demand.

On the other hand, all labour market programs can have substitution and displacement effects (sometimes referred to as ‘churning’ or ‘shuffling’ the queue) whereby jobseekers targeted by the program simply substitute for non-targeted jobseekers in filling existing vacancies, or they displace jobs in other locations or industries. Most programs also have an additional indirect cost which can be defined as the proportion of funds spent on jobseekers who would have gained employment without participating in the particular program. These effects decrease net efficiency; to the extent that unemployment is ‘churned’, they also raise important equity and access issues for labour market assistance programs, particularly where programs target one group of jobseekers over others with similar levels of labour market disadvantage.

4.5.2 Effectiveness of employment assistance programs

DEETYA monitors program outcomes and regularly evaluates DEETYA funded programs. One of the more recent general evaluations was the 1996 report on the Working Nation initiatives. This report found that there is a:

... need to be realistic about what can be achieved through active labour market policies. This applies both to the setting of targets and to the way in which targets interact with broader policy objectives. (DEETYA 1996c, p. vi)
To illustrate this point, selected data for some of the larger DEETYA employment programs (to be discontinued from May 1998) are shown in Table 4.2. Differences in costs and outcomes reflect differences in selection criteria and targets as well as the effectiveness of the programs themselves.

As can be seen in Table 4.2, direct employment outcomes are significantly greater than the estimated net effects of each program. For example, around 50 per cent of JobStart (an employment subsidy program) participants were in unsubsidised employment three months after the subsidy ended. DEETYA has estimated that around 22 per cent of the participants would have obtained employment without the program, so the estimated net effect is an improvement of 28 percentage points in the job prospects of participants (Pigram et al. 1997).

In assessing the general effectiveness and efficiency of different types of programs, research by the National Institute of Labour Studies has found that, in the Australian labour market, wage subsidy schemes are the most cost-effective type of general labour market program, while public sector job creation programs have been relatively expensive and usually temporary in their effects (Hawke, Robertson and Sloan 1997). Estimates of the combined substitution, displacement and other effects for wage subsidy and job creation programs are in excess of 80 per cent (that is, less than 20 per cent of subsidised employment placements lead to a net additional job) (Hawke, Robertson and Sloan 1997 and OECD 1993).

Table 4.2: DEETYA employment programs: commencements, outcomes, costs and estimated net effects

<table>
<thead>
<tr>
<th>Program</th>
<th>Commencements 1995-96</th>
<th>Unsubsidised employment outcomes</th>
<th>Unit cost of assistance</th>
<th>Estimated net effects</th>
<th>Minimum cost per net outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(No.)</td>
<td>(%)</td>
<td>($)</td>
<td>(%)</td>
<td>($)</td>
</tr>
<tr>
<td>JobStart</td>
<td>100 523</td>
<td>52.8</td>
<td>1 263</td>
<td>28</td>
<td>4 100</td>
</tr>
<tr>
<td>JobClubs</td>
<td>45 790</td>
<td>36.4</td>
<td>625</td>
<td>12</td>
<td>4 200</td>
</tr>
<tr>
<td>JobSkills</td>
<td>27 406</td>
<td>31.9</td>
<td>7 105</td>
<td>11</td>
<td>47 400</td>
</tr>
<tr>
<td>JobTrain</td>
<td>92 803</td>
<td>33.7</td>
<td>1 173</td>
<td>7</td>
<td>11 700</td>
</tr>
<tr>
<td>SkillShare</td>
<td>164 840</td>
<td>36.9</td>
<td>970</td>
<td>7</td>
<td>10 800</td>
</tr>
<tr>
<td>New Work Opportunities</td>
<td>49 402</td>
<td>21.0</td>
<td>10 009</td>
<td>4</td>
<td>143 000</td>
</tr>
</tbody>
</table>

a Percentage of participants in unsubsidised employment 3 months after program completion, 12 months to March 1996.
b Percentage point increase in the chances of participants finding employment.

In addressing structural as opposed to cyclical unemployment, training programs — which can cover a broad spectrum of activities — are thought to be the most appropriate form of assistance since they enable people to switch between occupations and industries in response to changing demand patterns. Training programs tend to be more expensive and of longer duration than wage subsidy or work experience programs and their immediate effectiveness may be limited in the absence of suitable job vacancies (Hawke, Robertson and Sloan 1997).

Given the inevitable continuation of structural shifts in TCF employment, appropriate assistance measures for any displaced TCF workers who become unemployed should include a strong training component. DEETYA believes this would be more effective where it recognises and builds upon existing skills:

Most TCF workers who are displaced due to restructuring of companies or changing technology will require broad based skills training, apart from language and literacy skills. ...Recognition of prior learning services can be accessed so that existing skills (however obtained) can be recognised and linked to further training. This assists in avoiding unnecessary re-training or duplication ...[and] can provide an incentive for people to embark on upgrading their skills. (DEETYA sub. 264, p. 9).

In all types of assistance, localised, tailored and closely targeted programs have been found to have better outcomes than large-scale centrally administered ones (EPAC 1996 and Calmfors 1994). This approach would seem to be appropriate in addressing structural shifts in the TCF industries, since displaced workers who become unemployed will have differing assistance needs and differing work opportunities, depending on their location, skills and other characteristics.

An example of how a locally targeted, structured training program can assist former TCF workers move into employment in other industries is shown in Box 4.3.

Regarding the case management approach to tailoring employment assistance which was introduced in Australia in 1994, international research has found that although case management cannot create jobs directly, in conjunction with other measures:

...intensified counselling and encouragement of active search behaviour for the long-term unemployed or other disadvantaged groups appear to have significant effects on job finding rates. (Calmfors 1994, p. 5)

The first evaluation of case-managed employment services in Australia found that case management was received positively by most jobseekers and was effective in identifying jobseekers’ individual needs (including identification of jobseekers who can find work on their own or who are already employed).
Box 4.3: NETTFORCE Non-English Speaking Background Home and Residential Care Pilot Project, Melbourne 1996

This pilot project was conducted in 1996 by NETTFORCE in conjunction with a number of other training and community agencies. It targeted non-English speaking background women who had been retrenched from the TCF industries in the northern and western suburbs of Melbourne and who had been unemployed for 18 months or more. Forty-four women were recruited from four language groups by the North Eastern Region Migrant Resource Centre.

The program consisted of a six month full-time accredited personal care training course at Northern Metropolitan TAFE, followed by an employment traineeship placement of up to six months in home and residential personal care. The results of the pilot were that of 44 commencements, 35 completed the program, of whom 18 obtained ongoing employment of at least 15 hours per week in personal care work. The pilot was considered successful in comparison with general JobSkills programs which have an overall success rate of 29.8 per cent for their clients.

In their report on the pilot, NETTFORCE concluded that a single agency delivery model would have been more efficient. They also found that such programs must be flexible enough to provide training for industries with high levels of casual labour (for example, health and hospitality) by allowing part-time and group employer traineeship placements and should be flexible enough to cater for a range of client skill levels, physical abilities and employment preferences.


Although the net effectiveness of case management in enhancing employment outcomes was not yet clear at the time of the evaluation, it was believed to have been hindered by over-emphasis on short-term outcomes, unclear objectives, inflexible guidelines, lack of experienced case managers, higher than expected case loads and a shortfall in resources. Significant commencement delays were reported because the number of ‘at high risk’ jobseekers requiring case managed assistance was higher than expected, and the information needed for client assessment was often incomplete or inaccurate (DEETYA 1996c). The evaluation report recommended better resourcing and targeting of case management services and a review of case management functions in locations known to have limited immediately available employment opportunities.

Finding

Given the structural nature of ongoing TCF adjustment, employment assistance for displaced TCF workers is more likely to be successful where it includes training
components and where it can be tailored according to location and individual client need. However, as is the case for all unemployed jobseekers, employment assistance programs are unlikely to achieve successful employment outcomes in all cases and are likely to cause substitution, displacement and other effects.

4.5.3 TCF Labour Adjustment Package

The TCF LAP was introduced as part of the TCF Industry Plan in January 1988, to assist displaced workers gain employment outside the TCF industries. The LAP was scheduled originally to run until the year 2000 in conjunction with the TCF 2000 Development Strategy, but was abolished in the 1996 Budget. The last LAP participants are scheduled to complete their program activities by December 1997.

The TCF LAP provided participants with an individually tailored package of wage subsidies, training and relocation assistance for up to 52 weeks. This assistance was available to workers retrenched from a TCF job after 1 January 1988 who had worked at least two of the previous three years in TCF (including as a homeworker). The package was designed specifically to encourage a high level of participation from workers thought to be disinclined to undertake retraining for social, cultural or financial reasons — namely, older, married, non-English speaking background female clothing workers. It did this by providing a non-means-tested allowance to participants equivalent to the standard adult unemployment benefit, thus including people who would not normally be eligible for benefits due to their partner’s income.

Measured by participation rates, the LAP was reasonably successful. In a survey of 1640 retrenched TCF workers registered as eligible for the TCF LAP with the CES in May 1993, three quarters had used LAP programs. There were significant differences in participation between different groups of former TCF workers and between different regions, with location found to be the dominant determinant (differing according to how the program was promoted and implemented in each region). Women and people from non-English speaking backgrounds (the main target groups of the program designers) were the most likely to participate in the program, while older jobseekers and those who had been unemployed since before 1991 were the least likely to participate. Although TCF homeworkers were eligible for the LAP, it is thought that very few participated in it (Webber et al. 1995).
Table 4.3: TCF LAP annual commencements by assistance type and expenditure, 1991-92 to 1996-97

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Training full-time (%)</td>
<td>77.2</td>
<td>77.7</td>
<td>81.9</td>
<td>86.0</td>
<td>91.6</td>
<td>92.3</td>
</tr>
<tr>
<td>Training part-time (%)</td>
<td>15.0</td>
<td>14.8</td>
<td>13.5</td>
<td>7.0</td>
<td>3.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Wage subsidy full-time (%)</td>
<td>6.6</td>
<td>4.4</td>
<td>4.1</td>
<td>4.8</td>
<td>3.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Wage subsidy part-time (%)</td>
<td>0.6</td>
<td>0.5</td>
<td>0.4</td>
<td>0.7</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Relocation assistance (%)</td>
<td>0.5</td>
<td>1.2</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Combined/Other (%)</td>
<td>0.0</td>
<td>1.4</td>
<td>0.0</td>
<td>1.3</td>
<td>0.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Total commencements (No.)</td>
<td>3,548</td>
<td>7,313</td>
<td>6,724</td>
<td>5,397</td>
<td>3,541</td>
<td>780</td>
</tr>
<tr>
<td>Expenditure b ($m)</td>
<td>3.92</td>
<td>10.32</td>
<td>21.00</td>
<td>29.98</td>
<td>25.4</td>
<td>1.10</td>
</tr>
<tr>
<td>Expenditure per commencement ($)</td>
<td>1,105</td>
<td>1,411</td>
<td>3,123</td>
<td>5,555</td>
<td>7,173</td>
<td>1,410</td>
</tr>
</tbody>
</table>

a Data covers the period to 31 August 1996.
b Annual expenditure covers all current commencements in addition to any of the previous year’s commencements remaining in the program.

Source: DEETYA, unpublished data

Numbers of participants, the type of assistance received and the costs of the TCF LAP varied over the life of the program. The vast majority of LAP participants used the program to undertake training. As shown in Table 4.3, program costs per commencement rose significantly as the proportion of participants undertaking more expensive full-time training increased. Expenditure decreased sharply in 1996-97 as the program was curtailed and new commencements ceased. Vocational training or a combination of vocational and English language training were the most common types of assistance. Relocation assistance, originally expected to be a major component of the LAP, was used by very few participants.

As for all major DEETYA programs, performance of the TCF LAP was monitored through the ‘Post Program Monitoring’ survey of participants three months after program completion. These data are more comprehensive than the TCF Industry Study survey of around 600 retrenched workers (discussed above) but they provide an indicator only of short term outcomes. As was the case in the TCF Industry Study, it is likely that the proportion of LAP participants remaining unemployed would have declined in the longer term as people found employment, retired or left the workforce.

Three month outcomes for the last six years of the TCF LAP are shown in Table 4.4. In total, over a third of LAP participants went on to other DEETYA
programs after completing the LAP (typically further English language or vocational training). Of those who completed the LAP and did not go on to other programs (shown in the ‘total completed outcomes’ column of Table 4.4), over half were unemployed three months after cessation and a fifth withdrew from the labour market, possibly indicating a high level of labour market discouragement. Anecdotal evidence suggests that some of those who withdrew from the labour market immediately after completing the LAP had not necessarily wanted to seek new, non-TCF employment, but instead had viewed the LAP as a valuable opportunity to undertake formal English language and other training, sometimes for the first time.

Significantly, employment outcomes were worse for the program’s two primary target groups — women and the overseas-born (not mutually exclusive groups), with high proportions withdrawing from the labour market, even though one of the stated aims of the program was to prevent such withdrawals.

**Table 4.4:** TCF LAP labour market outcomes by gender and birthplace, 3 months after program cessation, 1990-91 to 1995-96

<table>
<thead>
<tr>
<th>Group</th>
<th>Unsubsidised employment (full-time and part-time) (%)</th>
<th>Not working (%)</th>
<th>Not in labour force (%)</th>
<th>Total completed outcomes (No.)</th>
<th>In further DEETYA assistance (%)</th>
<th>Total LAP cessations (No.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>22.7</td>
<td>52.5</td>
<td>24.7</td>
<td>9 914</td>
<td>38.7</td>
<td>21 595</td>
</tr>
<tr>
<td>Male</td>
<td>34.9</td>
<td>55.5</td>
<td>9.6</td>
<td>2 431</td>
<td>30.4</td>
<td>4 740</td>
</tr>
<tr>
<td>Australian born</td>
<td>34.4</td>
<td>49.4</td>
<td>16.1</td>
<td>6 521</td>
<td>32.4</td>
<td>12 866</td>
</tr>
<tr>
<td>Overseas born</td>
<td>14.7</td>
<td>57.3</td>
<td>28.0</td>
<td>5 824</td>
<td>41.8</td>
<td>13 469</td>
</tr>
<tr>
<td>Total</td>
<td>25.1</td>
<td>53.1</td>
<td>21.7</td>
<td>12 345</td>
<td>37.2</td>
<td>26 335</td>
</tr>
</tbody>
</table>

*a* LAP participant groups are not mutually exclusive.

*b* Proportion of LAP participants who went on to participate in another DEETYA program, typically English language and literacy training courses (including 1 to 2 per cent who are in a subsidised employment placement).

**Source:** Employment Monitoring Section, DEETYA, unpublished data

The three monthly unsubsidised employment outcomes were lower for the LAP than for other DEETYA programs with a similar training emphasis such as JobTrain (34 per cent in 1996), Skillshare (37 per cent in 1996) and JobSkills (32 per cent in 1996) (see Table 4.2). These differences reflect differences in client groups (a higher proportion of women and overseas born clients in the LAP), in content (a higher proportion of English language training in the LAP)
and possibly in timing (LAP outcome rates are reported for a period which includes the recession of 1990-92). These figures represent the direct employment outcomes and not the ‘net impact’ of the programs, which are lower again due to displacement, substitution and other employment effects.

Some participants were critical of the TCF LAP for not allowing former TCF workers to re-enter TCF employment. Training could not be undertaken for skilled TCF jobs and LAP wage subsidies were not available to TCF employers. Some participants regarded this as an unnecessary disincentive which had affected also the long-term attractiveness of the industry for skilled workers:

The LAP ... tended to dissuade unemployed textile workers from returning to the industry. Many older workers preferred to remain unemployed rather than return to an industry that was perceived as being in decline ... In regional areas where employment opportunities are fewer, displaced textile workers returned to the industry more readily when an opportunity arose ... In metropolitan areas skilled labour is not so readily available and as the skilled workforce now employed ages it becomes important that the unattractive aura which surrounds the industry be addressed. (Norman Ritchie Fabrics, sub. 21, p. 7)

Finding

The TCF LAP achieved good participation rates but lower direct employment outcomes than other training-oriented DEETYA programs. It achieved poor outcomes for its primary target group of overseas-born women. Ineligibility of TCF workers under the LAP for retraining for higher skilled TCF positions may have reduced the employment prospects of some workers unnecessarily.

4.5.4 General labour market programs in Australia

A new framework for Government employment services is scheduled to commence in May 1998. These changes were announced in the 1996 Commonwealth Budget and have been accompanied by significant cuts to resources. The budget for DEETYA employment services was reduced by around 20 per cent in 1996-97, with a budget of $2.14 billion compared with expenditure of $2.73 billion in 1995-96 (DEETYA 1996b, p. 17). For 1997-98, the equivalent figure was $1.89 billion (DEETYA correspondence 2 September 1997).

Until the implementation of the new employment services in 1998, TCF workers who become unemployed will be eligible for some or all of the following through the Commonwealth Employment Service (CES):

- jobseeker registration, assessment and referral services;
- individual case management;
• jobseeker preparation and support (including JobClubs);
• assistance with self-employment (New Enterprise Incentive Scheme);
• wage subsidies (JobStart); and
• English language and literacy and vocational training.

Eligibility for these services depends on client characteristics and circumstances such as duration of registered unemployment, age and English proficiency. While most services are available to all registered jobseekers, clients of case management and the New Enterprise Incentive Scheme, in most cases, must be receiving a social security benefit (DEETYA sub. 264, p.11).

From May 1998, the system will consist of a Commonwealth Services Delivery Agency (CSDA or ‘Centrelink’) and linked employment service providers. The CSDA came into operation in July 1997 and provides certain previous Department of Social Security (DSS) and CES office functions to all jobseekers:

... registering jobseekers, administering income support payments, providing job seekers with self-help access to a National Vacancy Data Base and referring eligible unemployed people to income support services. (DEETYA sub. 264, p. 12)

More active labour assistance services — to be known as Flexible Labour Exchange Services (FLEX) — are to be provided by a range of public, private and community sector providers under contract to DEETYA.³ Other specialised employment services are scheduled to be introduced in May 1998 and will be put up for tender also:

• Entry Level Training Support Service, which will provide assistance to apprentices, trainees and their employers on a regional or sectoral basis; and
• the New Enterprise Incentive Scheme (an existing program), which assists eligible jobseekers to establish viable small businesses.

Jobseekers using FLEX and other specialised services will be referred by the CSDA and must be:

- recipients of unemployment or other eligible social security benefits (primarily unemployment, sole parent and sickness benefits); or
- apprentices or trainees; or
- unemployed people aged 15 to 20; or

³ These services are provided at three levels, FLEX 3 being provided to those least likely to obtain employment without assistance.
participants in Community Development Employment Projects (for Aboriginal and Torres Strait Islander jobseekers) (DEETYA 1997b).

The requirement that unemployed adult jobseekers must be receiving unemployment or other benefits (as opposed to simply being registered) before they are eligible for FLEX services is likely to limit access to FLEX services significantly for former TCF workers who become unemployed. Where jobseekers are not eligible for benefits due to spouse income (which is likely to be the case for many of the married women working in the TCF industry), they will be ineligible also for FLEX services. Where receipt of benefits is delayed due to redundancy payments or outstanding leave payments, there will be delays also in eligibility for FLEX services. Newly arrived migrants deemed ineligible for social security benefits for their first two years in Australia (applying to most migration visa categories except refugees) will be ineligible also for FLEX services.

From September 1997, of the normal DSS eligibility requirements, four components will be of particular relevance in determining whether unemployed former TCF workers will be immediately eligible for unemployment allowances and therefore FLEX services:

- Income Maintenance Period, which treats any leave payments made in respect of termination of employment as income for a period corresponding to the period of leave. In most cases, no allowance is paid for that period. For example, if a person receives payment for four weeks of outstanding leave, they will be deemed to be receiving an income and not entitled to unemployment allowances for four weeks (except in cases of hardship);

- Liquid Assets Waiting Period, which is calculated using a threshold of $2 500 in liquid assets for singles and $5 000 for couples or those with dependents. The waiting period can vary from to one to thirteen weeks. It may apply at the same time as any applicable Income Maintenance Period;

- Personal and partner income tests, which vary according to age. For example, a person over 21 years of age with a partner and no personal income would receive full benefits where their partner’s income is less than $497 per fortnight (about $12 000 per year). For every dollar in partner income over $497, the rate of allowance is reduced by $0.70. The allowance (and therefore eligibility for FLEX services) cuts out at around $912 per fortnight (around $23 000 per year); and

- Assets tests. Thresholds for these are relatively high at $125 000 to $268 000, depending on marital status and home ownership. Given the
low incomes of most TCF workers, asset testing could be expected to affect relatively few unemployed former TCF workers (DSS 1997).

For former TCF workers who are eligible for FLEX services, three levels of assistance will be provided, depending on duration of unemployment and identified labour market disadvantages. The most intensive form of assistance (FLEX 3) will be available to those registered as unemployed 12 months or more and those assessed as being at ‘high risk’ of becoming so. It will provide individualised job preparation and support.

Assessment of clients’ ‘risk’ status will use a new instrument currently being developed. The existing client screening process is based on two elements (and is followed by an additional ‘Client Classification Level Questionnaire’ to confirm ‘high risk’ status and allocate clients to relevant services):

(i) DEETYA research identified seven factors which affect most significantly a person’s ability to secure employment. They are: age; educational attainment; Aboriginal and Torres Strait Islander status; birth in a non-English speaking country; disability; English speaking ability; and geographic location (based on State/Territory of residence and whether residing in a metropolitan location).

(ii) Supplementary factors: poor motivation, low self esteem, poor language, literacy and/or numeracy skills and substantial time out of the workforce. (DEETYA 1996b, pp. 90–91)

Under the proposed assessment criteria, non-English speaking background jobseekers would be ‘at high risk’ only “if their English was very poor. They would not be selected if they had survival English” (DEETYA sub. 264, p. 13).

For most eligible unemployed former TCF workers, the less intensive FLEX 1 or 2 services will apply in the first 12 months of unemployment. These levels include labour exchange services and training in job search techniques. They do not include individualised job preparation nor vocational or other training. FLEX 1 and 2 services may prove to be inadequate for unemployed former TCF workers who are not identified as at ‘high risk’ (that is, eligible for FLEX 3) but who require English or vocational training to gain employment. Referral to TAFE or other training institution services may therefore be required.

Costs for FLEX services are anticipated to be around $250 for each basic labour exchange (FLEX 1). Where a person is long-term unemployed and the job lasts for 13 weeks, there will be a bonus of a further $250. Under FLEX 2, the Government will pay an additional premium for job search skills training for those unemployed six months or more. Under FLEX 3, payments will include an up-front service fee, with interim and final outcome fees when the disadvantaged jobseeker has been employed for 13 and 26 weeks respectively,
up to a total of $9200 (in addition to FLEX 1 payments) (DEETYA, correspondence, 29 August 1997).

Finding

Resources for DEETYA employment services have been reduced substantially in recent budgets. Under the general employment assistance framework scheduled to be introduced in 1998, TCF workers (and other people) who become unemployed will not be eligible for ‘FLEX’ employment assistance unless they are in receipt of an eligible social security benefit. Eligibility for benefits — and therefore employment services — can be delayed or impeded by redundancy payments, outstanding leave payments, spouse income, family assets and recently arrived migrant status.

Recommendation

Eligibility for employment services should be separated from eligibility for social security benefits so that jobseekers who are not immediately eligible for benefits (such as newly arrived migrants, people receiving redundancy payments and those with employed spouses, subject to means testing) could gain immediate access to employment services. Other eligibility criteria would still apply (eg, means testing, unemployment duration, ‘at high risk’ assessment). This is likely to require an increase in funding for general employment services.

4.5.5 The case for industry-specific employment assistance

Many submissions to this inquiry have argued that adjustment assistance will continue to be needed for TCF workers leaving the industry. For example, the TCFUA stated that it saw the:

... reinstatement of Labour Adjustment Packages as being of vital significance to the TCF industries. (sub. 128, p. 21)

The New South Wales Working Women’s Association stated:

It is crucial that both state and federal government support the continuation and extension of strategies developed in recent years to support NESB women, both those who wish to leave clothing factories and outwork arrangements and those who wish to remain in it. These include: the labour adjustment and income support package; distance English language learning programs; and support to the TCFUA for bilingual workers to organise and assist outworkers. Most importantly, the current freeze on the LAP Program should be lifted and growth money be allocated to its expansion. (sub. 61, pp. 5–6).
Several issues are involved in deciding whether a sector-specific labour adjustment program is required.

As outlined above, other government support is available. Introducing a special labour market program for one group of people to which others with the same needs and problems do not have access is not equitable. Australia’s welfare and labour market program systems are built around the principle that people with similar needs and disadvantages should be treated in a similar fashion. These systems should be just as capable of addressing the needs of someone who loses a job in the clothing industry as someone who loses a job through any other change taking place in the economy. This is not to say that such programs will be adequate in every case. However, if these programs are found to be consistently inadequate for people with certain characteristics, then the preferred option would be to address the problem by altering the design of the relevant programs, as has been recommended.

The experience of the previous TCF-specific labour adjustment program shows that a sector-specific approach does not necessarily result in better outcomes for participants than the general approach. While participation rates for the TCF LAP were relatively good, outcomes under this program were not markedly better than those under generally available labour market programs in operation at the same time.

### 4.5.6 The role of the employer in the event of retrenchment

As discussed in Chapter 3, the process of retrenchment can be a painful one for both employees and their employers, particularly where it occurs in smaller companies or involves long-serving employees. The Commission has observed a variety of approaches by TCF employers regarding retrenchments, which vary according to the resources available and the circumstances of each case. An example of one company’s experience is shown in Box 4.4.

Examples of useful measures outlined to this Inquiry included workplace consultations, training programs, personal counselling, assistance with finding and securing alternative employment and referrals to employment, English language and social services. It was suggested by some Inquiry participants that financial counselling for retrenched employees is often overlooked. Such counselling would be very useful for those who may not be aware of their financial options or of the social security implications of receiving lump sum redundancy payments (for example, Liquid Assets Waiting Periods and Assets Tests for unemployment and other benefits).
As discussed in Chapter 3, some participants called for government assistance in funding retrenchments. However, redundancy costs should be regarded as a normal part of restructuring and adequate provision must be made for them. Also, any government assistance with funding could encourage retrenchments unnecessarily.

Assistance to employers in preparing for impending retrenchments — and where possible, minimising them — is available from DEETYA’s TASK program. This program does not provide funding for redundancy payments and is not industry-specific. It is targeted to:

... enterprises which face retrenchment or movement to short-time or down-time arrangements. The assistance is designed to help them limit shedding of labour and to maintain and improve the skill levels of their employees. TASK funds are available for:

- the establishment and operation of an in-house consultative committee;
- investigation of the human resource implications of restructuring;
- development of training packages; and
- the delivery of training. (DEETYA 1996b, p. 106)

Box 4.4: Example of positive employer action during restructuring: Amoco

Amoco is a manufacturer of woven polypropylene products, notably of carpet backing, based in Liverpool in Sydney’s western suburbs. In 1996, faced with increasing competition, the company restructured. As a result, 40 out of 160 staff were retrenched, many of whom had been long-standing employees.

The company took a number of steps to manage the process of change and to increase their employees’ chances of finding new jobs. The company consulted extensively with staff and the union. Employees, the union and the company spoke openly about the changes and ensured that each party agreed to future activities before they occurred. Notice of one month was given. An agency was brought into the company to help workers with job searching skills such as interview techniques and resume writing. The company also worked closely with the local CES.

Despite the fact that many of Amoco’s former workers were not from English-speaking backgrounds (the company has 28 nationalities among its 120 staff), the company has observed that most of its former workers who wanted to find a new job after leaving Amoco managed to do so.

Source: Amoco, correspondence 26 May 1997
Such assistance has been utilised already by a number of TCF companies and could be useful to others in the future. This program is separate from the management training and marketing programs provided by AusIndustry (see Chapter 8). It provides up to $70,000 for each training project with a cap of $300,000 for each eligible enterprise. Funding for TASK increased from $9.2 million in 1995-96 to $13.4 million for 1996-97 (DEETYA 1996d). The program is expected to continue after the restructuring of DEETYA programs planned for 1998 (DEETYA 1997a).

Finding

The retrenchment process can be eased by strong cooperation between employers, employees, unions and relevant government agencies. This should include clear and open communication, adequate forewarning of impending redundancies (and any other labour adjustments) and timely implementation of counselling, training, referrals and other active assistance measures.

4.6 English language and literacy training

Just under half of Australia’s formal TCF manufacturing employees were born in non-English speaking countries (see Appendix C). Industry and community groups have indicated that a sizeable proportion of this group does not have high level English skills, although few employees would have no English skills at all (TFIA sub. 66, ANESBWA sub. 148, NSW Working Women’s Centre sub. 61). For example, the TCFUA sees:

... English Language, Literacy and Numeracy as the most important area for training in the industry, given the make-up of the workforce ... and the generally low levels of formal education. (TCFUA sub. 128, p. 18)

4.6.1 English language and literacy training for employees

Problems with English proficiency can reduce TCF employees’ ability to upgrade their skills or to participate in workplace flexibility and multi-skilling initiatives. Companies wishing to improve their employees’ English skills can apply for training assistance under the Workplace English Language and Literacy (WELL) program. This program funds workplace based English language and literacy training at the rate of 75 per cent of course costs in the first year, 50 per cent in the second year and 25 per cent in third and subsequent years, with the employer paying the balance. Allocated funding for 1996-97 was $11.6 million (DEETYA 1996b, p. 78). Guidelines are workplace-oriented but have been flexible enough to allow the TCFUA to use WELL funding to run
English courses successfully for clothing homeworkers in a number of locations around Melbourne and Sydney (TCFUA, sub. 128, p. 19).

TCF companies which have used WELL noted that workplace efficiency and flexibility improved as a result (Footwear Manufacturers Association of Australia, DR trans., p. 22), but some commented that the existence of the program and its apparent benefits do not appear to be widely known within the industry. The NSW Adult Migrant English Service (AMES) has identified several issues for smaller TCF companies wishing to use the WELL program:

- increasing employer contributions to course costs after the first year “discourages many smaller TCF workplaces from introducing WELL programs or from continuing them beyond the first year”;
- owners and managers have little time for the lengthy application forms and progress reports required for WELL; and
- small workplaces may not be able to “release sufficient operators at the same time for training to be cost effective”. (sub. 187 p. 5)

For very small companies (5 employees or less) who cannot release more than one or two employees for training at a time, a group training approach where the course and its costs are shared among a number of firms in a given area may be appropriate. Relevant industry associations or unions might wish to play a role in coordinating this type of industry group training.

### 4.6.2 English language and literacy training for jobseekers

English proficiency problems have been of much concern to the industry in considering alternative employment options for displaced TCF workers. This is because there is a well documented nexus between English proficiency and employment opportunities — adequate English language skills are essential to gaining access to further training and education and to the general Australian labour market (see Wooden, Holton, Hugo and Sloan 1994, and Kipp, Clyne and Pauwels 1995). For this reason, English proficiency is one of the key criteria in determining whether unemployed jobseekers are at risk of becoming long-term unemployed and in need of more intensive employment assistance.

Under the proposed general employment assistance framework, the more intensive levels of assistance can include English language training where deemed necessary for individual jobseekers. However, access to English language training is not guaranteed; it could prove difficult in non-metropolitan locations (although there are fewer non-English speaking background people in regional than in city areas) or in areas where demand for language services
outstrips supply. The Department of Immigration and Multicultural Affairs (DIMA) expressed concern that under the new FLEX employment services:

... there is very little provision for monitoring the extent of training provision (in English or other areas) offered or supplied by the private service providers to jobseekers in special need. (sub. 189, p. 4)

DEETYA currently conducts ongoing monitoring and evaluation of all its programs. This function is to be continued after the introduction of the FLEX system. As DEETYA has demonstrated in the past, effective monitoring is an important component of program management and is an essential tool for identifying which types of training and other assistance are most effective.

In addition to the FLEX system, DEETYA funds the following programs offering specialist English language and literacy training for jobseekers:

- Advanced English for Migrants Program, which seeks to increase jobseekers’ English proficiency to a level where they can attend vocational training, gain employment and gain recognition of overseas qualifications. Courses can run for up to 52 weeks but the majority run for 26 weeks. Funding is provided through the TAFE system on an annual block funding basis and is around $5.1 million per year for 4000 participants (DEETYA 1996b, pp. 96–98); and

- Bridging Courses for the Overseas Trained Program, which runs small, specialised courses of combined English and vocational training for overseas professionals and para-professionals seeking to have their qualifications recognised for employment purposes in Australia.

4.6.3 English language and literacy training for recently arrived migrants

There is considerable anecdotal evidence indicating that the majority of TCF homeworkers, and a smaller proportion of formal TCF employees, are recently arrived migrants of non-English speaking background, primarily from the larger source countries in South-East Asia and the Middle East (see Appendix D).

DIMA provides English language training through its Adult Migrant English Program (AMEP) for recently arrived migrants who require it. The program provides up to 510 hours of English tuition and is complemented by a scheme matching voluntary English tutors to nearby students. Currently, eligible migrants must register for tuition within three months of arrival (or where relevant, of permanent residency status being granted), commence tuition within 12 months of arrival and complete it within three years. Refugees have up to five years to complete their AMEP hours and all eligible migrants may apply for
time extensions (for example, due to illness or childbirth). AMEP tuition can be taken in formal group classes or through the Distance Learning Program.

Research conducted by the Adult Migrant English Service in Victoria in 1996 found that Vietnamese women eligible for the AMEP had unusually low participation and completion rates for the program. The study concluded that the main causes of this were economic necessity (that is, the need to work), lack of information about the program, family responsibilities, childcare difficulties, transport difficulties and cultural and gender-related factors. Clothing homeworkers were found to face additional access barriers because:

... time for study is dependent on the highs and lows of the contracts with the clothing manufacturers. They are also often tired because they assume the burden of child-rearing as well. (Edwards 1996, p. 13)

The study recommended greater flexibility of delivery for the AMEP, including weekend classes, mobile classes and other services for homeworkers to be developed in consultation with the industry and TCFUA (Edwards 1996, p. 14).

In NSW, an AMEP distance learning tuition package for students identified as clothing homeworkers was developed and piloted in 1995. This consisted of books, audio tapes, video tapes and regular telephone contact with the Distance Learning teacher. The pilot project was well publicised and generated over 200 inquiries, with 130 students participating over the life of the project. This indicates that if they are given more flexible access arrangements, more non-English speaking TCF homeworkers are likely to participate in English language training. Funding for the project was not continued beyond the pilot stage (NSW Adult Migrant English Service, sub. 187).

Community groups consulted for this Inquiry suggested that flexibility of the AMEP could be further improved by introducing a voucher system of delivery, which effectively would remove the current time constraints for registration and commencement. Improved information for newly arrived migrants about how to register and participate in the AMEP was suggested also (Industry Commission community consultations, March 1997).

DIMA has responded that a voucher system would be inappropriate for the AMEP because it would “take away the incentive to learn English early and undermine the settlement process” and would create program budgeting and planning difficulties (sub 189, p. 6). The Commission is not convinced that these disadvantages would outweigh the advantages of a voucher system.
Finding

Access to English language training is necessary for the successful participation of non-English speaking jobseekers in the Australian workforce. Several English language training programs are provided by DEETYA and DIMA. Ongoing monitoring and evaluation is necessary to ensure appropriate and effective English training services.

The TCFUA-operated WELL program and the NSW AMES-operated Distance Learning Program for TCF homeworkers have been particularly effective in encouraging the participation of TCF homeworkers in English language training.
Industry participants identified several aspects of taxation and regulatory arrangements in Australia which, it was argued, impeded the competitiveness of TCF activity in Australia. While some of the issues identified were of broad economy-wide significance, this Chapter focuses on those taxation and regulation issues of particular relevance to TCF industries.

5.1 Tax issues

After assistance reductions, taxation was one of the leading concerns of TCF companies in submissions to this Inquiry. Many participants saw the current tax structure as a major disincentive to investment in TCF activity in Australia, arguing that it placed these industries at a disadvantage compared with foreign competitors. For example, the South Australian Government described Australia’s current taxation system as “complex and unwieldy”:

> It imposes high compliance costs upon business and industry, distorts investment and consumption choices and damages Australia’s ability to compete in international markets. The imbalance between the taxing powers of the Commonwealth and State Governments has resulted in a costly and inefficient web of indirect State taxes and stamp duties that adversely affects the competitive environment for business and industry. (sub. 232, pp. 4–5)

Similarly, the TFIA argued that:

> Australia’s complex taxation system is a major ongoing source of competitive disadvantage to Australia’s local TCF operations in both import replacement and export markets. (TFIA, sub. 66, p. 36)

Many participants acknowledged that substantial changes to the tax system to improve the international competitiveness of Australian industries were beyond the scope of this Inquiry. For example:

> ... taxation issues [should] be addressed as a priority through a review of the taxation system to establish a competitive tax system which reduces anomalies and compliance costs for industry compared with the complexity of the current system. (City of Greater Geelong and the Geelong Wool Industry & Manufacturing Industry Taskforces, sub. 105, p. 8)
The Carpet Institute made a similar comment:

There are aspects [of the tax system] which stand out but they are difficult to address in isolation and therefore need to be part of a comprehensive review of taxation policy in Australia. (Carpet Institute of Australia, sub. 120, p. 5.7)

The recent High Court decision regarding State ‘business franchise fees’¹ has accentuated the fragility of the existing system. The Commonwealth Government has decided to accelerate the process of tax reform (see Box 5.1). Although it is too early to assess the proposed reform initiatives, the Commission supports the need for broad-based reform of taxation arrangements, including its interaction with social security arrangements (PC 1996).

Notwithstanding these broader considerations, many participants identified particular features of the tax system which they viewed as detrimental to TCF industries. These included payroll and wholesale sales tax arrangements and depreciation allowances.

### 5.1.1 Payroll tax

Payroll tax (PRT) is imposed as a tax on the wages, salaries and benefits² paid by employers to employees, with the legal incidence falling on the employer. Initially introduced by the Commonwealth Government in 1941 to fund child endowment payments, it was handed to the States in 1971. Since then, it has become the major source of self-raised revenue for the States and Territories and accounted for more than 22 per cent of total State tax revenue in 1995-96. (The importance of PRT as a source of self-raised revenue for the States and Territories is likely to have increased significantly following the recent High Court decision on the Constitutional legality of State-levied excise taxes.)

Many participants argued that PRT has an adverse effect on the cost structure of TCF industries which reduces their ability to compete with imports and in export markets. More generally, participants criticised this form of taxation as being a ‘tax on labour’ which reduced employment.

---

¹ *Ha and another v State of New South Wales & others; Walter Hammond & Associates v State of New South Wales & others*

² Defined as ‘... allowances or other benefits which are provided to employees (other than as a reimbursement for work-related expenses incurred by the employee) [and] are deemed to be wages for the purpose of the payroll tax ...’ (CCH 1997, p. 1541).
Box 5.1: Current taxation reform initiatives

On 13 August 1997, the Prime Minister announced the Government’s intention to accelerate the tax reform process. The Government has formed a Taxation Taskforce headed by Treasury with representatives of the Department of Prime Minister and Cabinet, the Australian Taxation Office, the Treasurer’s office and the Cabinet Policy Unit.

The Taxation Taskforce will report to Government on options for reform of the taxation system within the constraints that:

- there should be no increase in the overall tax burden;
- any new taxation system should involve major reductions in personal income tax with special regard for the taxation treatment of families;
- consideration should be given to a broad based, indirect tax to replace some or all of the existing indirect taxes;
- there should be appropriate compensation for those deserving of special consideration; and
- reform of Commonwealth/State financial relations must be addressed.

The Government has also made a commitment to a heightened process of consultation with interest groups via a proposed special Government Members’ Taskforce and consultation with other interest groups in the community.


CDA Industries summed up these views:

- local production is taxed but not imports and in this sense a payroll tax is a negative import duty for import competing manufacturers;
- payroll tax is not reimbursed when products are exported unlike our competitors who receive VAT reimbursements. It thus increases the cost of exports and reduces competitiveness of Australian exports on world markets; and
- by increasing the cost of labour relative to capital, it acts as a tax on labour which, leaving the social implications aside, distorts the relative cost of factors of production. (sub. 59, p. 17)
Economic analysis of the effects of PRT, however, does not present such clear conclusions, particularly when it is compared with ‘revenue-neutral’ alternatives (that is, other forms of tax which replace PRT so that there is no change in the overall level of tax revenue). It is likely that a reduction in PRT, with no offsetting increase in other taxation, would reduce real labour costs and could stimulate employment, at least in the short term. If other taxes are raised to compensate for the reduction in PRT revenue, the situation is likely to be quite different and the ‘economic incidence’ of PRT (that is, who actually pays, as opposed to who is legally obliged to pay) is considerably less distortionary than first appears.3

There is a considerable body of economic literature which concludes that a comprehensive labour income tax with a single rate will have very similar economic effects to a comprehensive consumption or value-added tax with a single rate.4 While in practice PRTs are not as broadly based as consumption or value-added taxes, this conclusion provides a guide to the economy-wide effects of these forms of taxation, once one takes into account the substantial share of labour costs in total costs across the economy and the consequences of alternative taxes for relative prices and exchange rates.

The view that PRT affects relatively labour-intensive industries adversely often ignores the fact that capital goods’ prices and other material prices are also affected by PRT because of their labour input cost. In this sense, PRT influences the costs of capital-intensive, as well as labour-intensive, industries. Viewed this way, the labour cost content of capital-intensive and labour-intensive activities is more similar than at first glance.

Similarly, it is not clear that PRT compares unfavourably with many other forms of taxation in disadvantaging import-competing industries or export activity. It is the case that payroll taxes are ‘origin-based’ taxes, falling on items produced in and exported from Australia and exempting imports, while ‘destination-based’ taxes (such as a consumption or value-added tax) are usually imposed on imports and exempt exports. However, a revenue-neutral change from a payroll tax to a broad-based consumption tax might not alter the competitiveness of Australian tradeable industries significantly because of the induced effect on the exchange rate. The removal of PRT and its replacement by a consumption or value-added tax would make imports more expensive and exporting more attractive, requiring a revaluation in the Australian dollar to offset the change in relative prices. What exporting and import-competing industries would gain

3 See, for example, a summary of recent literature in IC 1994a.
4 For example, Samuelson 1961, Head 1985 and Bascand 1989.
from elimination of payroll taxes would, after a period of adjustment, be largely or wholly negated by exchange rate adjustments.

Furthermore, while it is not relevant to the economic analysis of Australian taxes, it is not necessarily correct to assume that goods exported to Australia are not subject to taxes similar to PRT. In most OECD countries, employers are required to make contributions (related to their payrolls) towards the cost of social security. Similarly, in China, state-owned enterprises meet the cost of some social services provided to their employees (such as housing and health care).

Within TCF industries, the existence of homeworking may have particular implications for the effect of PRTs on formal employment. Employers of homeworkers often pay in cash and do not pay PRT, raising the attractiveness of utilising homeworkers relative to factory employment (see Appendix D).

Because PRT is a major form of State government revenue, any consideration of its abolition must take account of fiscal realities and the need to find alternative sources of revenue. Although studies have found PRT to have economic costs, they have generally concluded that a more efficient alternative would require major reform of the tax system. Economic modelling of revenue-neutral scenarios suggests that PRT performs reasonably well overall when compared with other alternatives which involve the States using more inefficient taxes or taxes which exacerbate Commonwealth/State financial imbalances (IC 1994a).

The Taxation Taskforce has been directed to take Commonwealth/State financial relations into consideration in its current review of the taxation system which could therefore, be expected to include an analysis of PRT (see Box 5.1).

A full analysis of the effects of PRT is beyond the scope of this Inquiry. In practice, the way in which it affects wages, employment, profits and consumer prices across the economy will depend upon the responses of employers, their workers and customers to changes in prices and the form of the taxes which replace the lost revenue.

Notwithstanding its advantages relative to other forms of State taxation, changes could be made to PRT arrangements which would reduce its economic costs. In particular, much could be done to broaden the base by reducing or removing threshold arrangements and other exemptions. Threshold and other exemption arrangements vary across States, as do the levied rates. In 1996-97 the threshold payroll levels varied from $456 000 in South Australia to $775 000 in Queensland. Minimum levied rates varied between 3.95 per cent in Western Australia and 7 per cent in Tasmania (see Table 5.1). The exemption thresholds
mean that small firms — with fewer than 20 or so employees — paying average wages, are not subject to payroll tax.

Some States have also provided special exemptions from PRT to regional based TCF enterprises such as Berlei and Rundles.

In its draft report on State and local government assistance to industry (IC 1996e), the Industry Commission estimated that $4.8 billion per annum was forgone in payroll tax in 1993-94 through various exemptions. Most of this amount was due to the minimum payroll thresholds, but other rebates and exemptions are linked to State government efforts to promote employment, exports or investment and are offered in conjunction with other assistance measures. For example, three PRT rebate schemes operate in South Australia: the Exporters Payroll Tax Rebate Scheme (10 per cent rebate on PRT for employees employed in export activity up to 30 June 1996, 20 per cent PRT rebate from 1 July 1996); the New Exporters Payroll Tax Rebate Scheme (50 per cent rebate on PRT for new employees working in export-oriented activity); and the Trainee Wages Payroll Tax Rebate Scheme (98 per cent PRT rebate for trainees working under approved training schemes).

Table 5.1: Pay-roll tax rates and thresholds

<table>
<thead>
<tr>
<th>State</th>
<th>Financial year</th>
<th>Rate (%)</th>
<th>Threshold ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>1996-97</td>
<td>6.85</td>
<td>600 000</td>
</tr>
<tr>
<td>VIC</td>
<td>1997-98</td>
<td>6.25</td>
<td>515 000</td>
</tr>
<tr>
<td>QLD*</td>
<td>1997-98</td>
<td>5.00</td>
<td>825 000</td>
</tr>
<tr>
<td>SA</td>
<td>1997-98</td>
<td>6.00</td>
<td>456 000</td>
</tr>
<tr>
<td>WA</td>
<td>1996-97</td>
<td>nil</td>
<td>0 to 625 000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.95</td>
<td>625 001 to 2 500 000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.95 to 4.95</td>
<td>2 500 001 to 4 166 667</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.95 to 6.00</td>
<td>4 166 668 to 5 208 333</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6.00</td>
<td>5 208 334 and over</td>
</tr>
<tr>
<td>TAS</td>
<td>1996-97</td>
<td>7.00</td>
<td>565 000</td>
</tr>
<tr>
<td>NT</td>
<td>1996-97</td>
<td>nil</td>
<td>0 to 520 000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5.00</td>
<td>520 001 to 1 249 999</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6.00</td>
<td>1 250 000 to 9 999 999</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.00</td>
<td>10 000 000 or more</td>
</tr>
<tr>
<td>ACT</td>
<td>1996-97</td>
<td>6.85</td>
<td>650 000</td>
</tr>
</tbody>
</table>

* The Queensland thresholds have been adjusted on a calendar year basis. For 1996, the threshold is $800 000 which will increase to $850 000 from 1 January 1998.

Source: Information supplied by State government departments
Some participants also argued that existing threshold exemptions were inequitable to medium to large firms:

[W]e believe the PRT tax burden should be more evenly spread by lowering the payroll threshold and thereby lowering the PRT rate. While this may be politically unpalatable, the CIAL points out that the industry’s employment, value-adding and export effort generally rests within medium to large firms. (CIAL, sub. 204, p. 10)

Broadening the base of PRT by removing exemptions for small businesses and other exemptions (other than businesses so small as to make collection and compliance costs greater than the revenue gain) would enable a lowering of the general levied rates, which would reduce its distortionary effects. For example, Freebairn et al. (1989) suggested that such a broadening of the base could result in a halving of the existing PRT rate. Similarly, Crowe (1996) estimated that if all firms in NSW paid payroll tax, the general rate applying in NSW could be reduced from (the then) rate of 7 per cent to 3.1 per cent. Broadening the base may also reduce administration costs for government and compliance costs for firms — which can be as high as 6.2 per cent of the remitted amount (Pope et al. 1993a).

A substantial number of TCF firms are small businesses (see Chapter 1) and accordingly are exempt from PRT. While it is not possible to estimate precisely the number of TCF firms which fall below the threshold, ABS data on the size of establishments (see Appendix B) suggest that the majority of TCF firms are in this category. Any broadening of the base would increase their costs, but would reduce the costs for larger enterprises, assuming a revenue-neutral change.

Some participants, including the TFIA, suggested that TCF industries be exempted from PRT. However, this would involve further selective assistance to TCF producers and exacerbate the current inefficiencies of the PRT system from an economy-wide perspective, particularly if it required an increase in the rate levied on other industries to make up for the lost revenue.

Finding

Payroll taxes are a less distortionary form of tax than many participants have argued, and may be much less distortionary than many other State government taxes. The overall efficiency of payroll taxes could be improved by broadening the existing tax base and reducing compliance costs, rather than exempting TCF industries.

---

5 The NSW Government has since reduced the payroll tax rate from 7 per cent to 6.85 per cent and included superannuation in the tax base.
5.1.2 Wholesale sales tax

Wholesale sales tax (WST) has been one of Australia’s main instruments for raising revenue through taxation of consumption (customs duties, excise taxes and the now defunct State business franchise fees being the other three). The rates of tax applied vary between products and are defined in a series of schedules in the *Sales Tax (Exemptions & Classifications) Act 1992*. Goods which are not exempt attract WST at 12, 22 or 32 per cent. Any products not listed in the schedules are defined as ‘assessable’ and automatically charged the default rate of sales tax of Schedule 4 (currently 22 per cent).

The South Australian Government suggested that the current WST system was in need of a major overhaul or complete replacement, arguing that:

... it adds further to input costs and erodes international cost competitiveness. The Business Council of Australia has estimated that the wholesale sales tax on business inputs adds between 4 and 6 per cent to the cost of Australian exports.

(sub. 232, p. 5)

Table 5.2: Sales tax rates on selected TCF products, 1997

<table>
<thead>
<tr>
<th>Schedule</th>
<th>Item</th>
<th>Product</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>75</td>
<td>Clothes</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>77</td>
<td>Footwear, materials for repairing footwear etc.</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>150</td>
<td>Cloth on the roll</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>151</td>
<td>Yarns and threads for knitting, sewing etc.</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>152</td>
<td>Leather</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>168</td>
<td>Scoured wool</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>Household drapery, soft furnishings etc., carpets</td>
<td>12</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>Fur skins</td>
<td>32</td>
</tr>
</tbody>
</table>

*Source: Sales Tax (Exemptions & Classifications) Act 1992*

However, most TCF products — including all clothing and footwear, leather and most textiles — are exempt from WST under Schedule 1 of the Act. There are also exemptions (for users registered for sales tax) for a wide range of items used as inputs to other manufacturing-related activities. The main TCF

---

6 The *Sales Tax Assessment Act 1992* imposes a tax on the last wholesale sale of goods which have not been used previously in Australia. This tax applies to assessable ‘Goods’ and ‘Dealings’. Goods are any form of tangible personal property while dealings cover a broader array of situations. However, there are four major categories which define dealings — wholesale sales, retail sales, goods applied to own use and local entries.
products subject to sales tax are carpets and household drapery (both at rates of 12 per cent) (see Table 5.2).

As a result of the range of exemptions, TCF manufacturers face relatively low WST liabilities compared with other manufacturing because most of their outputs, as well as their inputs, are exempt. Some participants, including the Carpet Institute of Australia, argued that exemptions for some TCF and other products and services are inequitable:

At the broadest level carpets compete against other products and services for the consumer’s discretionary income. ABS household expenditure surveys reveal that consumer-spending behaviour has moved towards recreation and leisure spending away from traditional areas. The growth areas are generally free of Sales Tax which is a significant distortion and an inequity. (sub. 204, p. 10)

Some participants argued that where WST does apply, it has a distortionary effect on consumer behaviour. For example, CDA Industries argued the 12 per cent WST on TCF products such as bed sheets, pillow cases, table cloths, towels and cloth ribbon was unfair when the industry had to compete with recreation, meals and other personal services (which are exempt) for the consumer’s dollar (sub. 59). CDA Industries also identified inconsistent treatment within the TCF industry itself:

Elastic and textile cords used in clothing are taxed at 12 per cent under the WST but fasteners used in clothing are sales tax exempt. (sub. 59, p. 17)

Participants argued that the current WST arrangements particularly disadvantaged exporters. In theory, WST is subject to drawback on exports. However, this is difficult to achieve in practice. For instance, Godfrey Hirst argued that:

It is technically difficult to provide reimbursement for wholesale sales tax embedded in the cost of goods produced for export ... [which] ... creates a disadvantage for Australian exporters in comparison with competitors whose tax regimes do provide reimbursement. This latter group includes the great majority of competing countries, which use a value added approach. (sub. 113, p. 8)

The anomalies created by different WST rates for different TCF products are symptomatic of the selectivity of exemptions and inclusions. There appears to be no coherent or consistent rationale for these exemptions. In part they reflect a desire to minimise the regressive nature of these taxes by exempting commodities on which those with low incomes spend a greater proportion of their income. In other cases, exemptions appear to be a reflection of lobbying.

An anomalous feature of WST is differential treatment of goods depending on whether they are sold to consumers or used in production. For example, the Far North Queensland Quilting Services stated:
One hundred per cent cotton fabric is sold without sales tax to retailers who sell it to consumers who make it into curtains etc. ... If someone sends me a metre of fabric to quilt for them I have by law to charge 12 per cent sales tax on the cost of the fabric. (sub. 15, pp. 13–14)

The current system of exemptions and differential rates reduces the efficiency of the WST and results in high compliance costs, especially for smaller businesses (see Box 5.2). It is partly for this reason that there has been considerable community debate about moving to a more broadly-based expenditure tax. Within the current arrangements, there clearly is scope for broadening the base of the WST (that is, removing current exemptions) to increase the efficiency of the system, and in a revenue-neutral scenario, allow rates to fall.

Box 5.2: WST compliance costs

Pope et al. (1993a) conducted a study into the compliance costs of the WST in Australia in 1990-91. However, because the Government introduced some revisions to the WST arrangements from 1 January 1993, the authors stress that their findings should be considered as only indicative.

Overall, the study found the compliance costs of WST to be regressive, in the sense that a higher burden (up to 24 per cent of the remitted amount) fell on smaller businesses than larger businesses (as low as 0.13 per cent of the remitted amount). On average, WST compliance costs were equal to 1.9 per cent of the total remitted amount.

The study found also that WST sometimes caused cash-flow problems when taxes are remitted to the Australian Taxation Office (ATO) before payment for goods is received from credit customers. This may be a particular issue for small businesses.

Source: Pope et al. 1993a

However, broadening the WST base would have implications for producers and consumers of currently exempt goods. For example, removal of the clothing and footwear WST exemption would raise the final price to the consumer. As discussed in detail in Appendix E, aggregate demand for clothing is relatively insensitive to price. That is, the change in price would result in a proportionally smaller change in consumption. As a result, people would spend a proportionally greater amount on clothing and footwear (see Appendix E). However, this does not necessarily mean that people would consume less overall because, as discussed above, the price of currently taxed goods such as appliances, cars and jewellery would fall in a revenue-neutral situation.

7 The actual incidence of compliance costs will depend on the degree to which firms can pass the cost forward to customers or backward to suppliers.
Many submissions to this inquiry argued that a broader-based goods and services tax (GST) would enable a reduction in WST which they thought would have net benefits for Australian TCF manufacturers despite the loss of exemption from taxes on outputs. In the case of some participants, this view was predicated on the expectation that introduction of a GST would be accompanied by removal of PRT.

5.1.3 Depreciation allowances

Several participants suggested that accelerated depreciation be allowed for the TCF industries. For example, Gibbs Burge stated:

... our overseas competitors are able to write off a machine in three years, or less, and will in the future, always have a slight edge in technology and productivity. Ideally, we should be able to write off the capital cost in the year of purchase. This would give a huge lift to industry. There would be a medium term revenue effect, which would eventually disappear. The argument is not one of being able to write off the entire cost, which we can do already, but to do so over a shorter period. (sub. 26, p. 15)

Benalla Spinners and Barwon Spinners stated:

Depreciation rates are not good enough because most textile machinery is high cost and needs to be renewed every 7–10 years maximum. (sub. 110, p. 22)

Godfrey Hirst stated:

Levels of depreciation should allow write-off of plant more rapidly than currently provided. Technological change is rapid and depreciation rates should be consistent with the replacement cycle of machinery. (sub. 113, p. 43)

There may be more flexibility in the depreciation arrangements for tax purposes than these comments suggest. While the ATO produces a list of recommended periods of effective plant life, firms have the option of irrevocably self-assessed effective lives (see Box 5.3). Examples of such recommended effective lives are included in Table 5.3. For plant acquired after 12 March 1991, taxpayers may make their own estimates of the effective life of an item of plant, which must relate to the total estimated income-producing life of the plant, even if the company expects to dispose of it before its income-producing life is over. Taxpayers’ estimates of effective life can be disputed by the ATO. Such provisions may deter taxpayers from using the option of self-assessment of effective life.
Box 5.3: Rates of depreciation

The rate at which depreciable assets are written down for tax purposes is determined by the effective life of the asset and the allowable depreciation rate.

Effective life

The effective life of a particular item of plant is used to determine its relevant depreciation rate for tax deduction purposes:

Broadly, the effective life of a particular item is the period of time [over which] the item can be expected to be used for income-producing purposes, assuming it is kept in good order and condition. (Taxation Ruling IT 2685, para. 5)

From 1 July 1991, taxpayers have the option either to self-assess effective life or adopt periods specified by the Commissioner of Taxation. Self-assessed effective lives must take into consideration the potential physical life, expected circumstances of use by the particular taxpayer, predictable obsolescence and whether the effective life is restricted by the duration of a particular project. The ATO has indicated that effective life is not restricted to the asset’s use by the assessing taxpayer:

Sometimes, taxpayers will sell an asset at a time when its useful life has not expired. The time of sale is not to be treated as the end of the asset’s effective life. (Taxation Ruling IT 2685, para. 11)

Taxpayers are required to retain details of how an estimate is made for five years. Estimates of effective life can reasonably be based on manufacturer’s specifications, independent engineering information, the taxpayer’s own past experience with similar assets, and past experience of other users of similar assets.

Rates of depreciation

Depreciation rates depend on the depreciation method, the date the asset was acquired and the effective live of the asset. Scheduled rates apply for diminishing value and prime cost methods of calculating depreciation. The diminishing value applies by default unless taxpayers elect to use the prime cost method. Different rates also apply for assets acquired after 26 February 1992 (see Table 5.4).

When a depreciable asset is disposed of (sold, scrapped, destroyed, lost or given away) the unrecouped balance is claimable as a deduction.

a Applies to assets acquired after 12 March 1991.

Source: Taxation Ruling IT 2685, CCH 1997 Chapter 15
### Table 5.3: Selected effective plant lives as recommended by the Taxation Commissioner

<table>
<thead>
<tr>
<th>Type of plant</th>
<th>Effective life of plant acquired after 12 March 1991 (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weaving machinery (silk and cotton)</td>
<td>15</td>
</tr>
<tr>
<td>Wool scouring machinery</td>
<td>16</td>
</tr>
<tr>
<td>Woollen manufacturers’ machinery</td>
<td>16</td>
</tr>
<tr>
<td>Knitting machines</td>
<td>15</td>
</tr>
<tr>
<td>Sewing machines</td>
<td>10</td>
</tr>
<tr>
<td>Needle loom machine</td>
<td>10</td>
</tr>
<tr>
<td>Tanners’ plant</td>
<td></td>
</tr>
<tr>
<td>modern plant used in ‘wet’ process</td>
<td>15</td>
</tr>
<tr>
<td>other</td>
<td>20</td>
</tr>
<tr>
<td>Boot and shoe making machinery and plant</td>
<td>15</td>
</tr>
</tbody>
</table>

*Source:* CCH 1997, para. 40-085

### Table 5.4: Annual depreciation rates

<table>
<thead>
<tr>
<th>Effective life (years)</th>
<th>Prime cost</th>
<th>Diminishing value</th>
<th>Prime cost</th>
<th>Diminishing value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
</tr>
<tr>
<td>Fewer than 3&lt;sup&gt;a&lt;/sup&gt;</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>3 to fewer than 5</td>
<td>40</td>
<td>60</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>5 to fewer than 6 2/3</td>
<td>24</td>
<td>36</td>
<td>27</td>
<td>40</td>
</tr>
<tr>
<td>6 2/3 to fewer than 10</td>
<td>18</td>
<td>27</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>10 to fewer than 13</td>
<td>na</td>
<td>na</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>10 to fewer than 13 2/3</td>
<td>12</td>
<td>18</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>13 to fewer than 30</td>
<td>na</td>
<td>na</td>
<td>13</td>
<td>20</td>
</tr>
<tr>
<td>13 2/3 to fewer than 20</td>
<td>9</td>
<td>13.5</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>30 or more</td>
<td>na</td>
<td>na</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>20 to fewer than 40</td>
<td>6</td>
<td>9</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>40 and over</td>
<td>3</td>
<td>4.5</td>
<td>na</td>
<td>na</td>
</tr>
</tbody>
</table>

<sup>a</sup> An immediate 100 per cent depreciation is available for allowable assets with effective lives under three years or that cost less than $300.

*Source:* CCH 1997, para. 15-295
5.1.4 Non-compliance

In its submission to the Senate Economics References Committee Inquiry into Outworkers in the Garment Industry (Collins Report 1996a), the ATO argued that the clothing industry has demonstrated high levels of non-compliance with taxation requirements, accounting for between $80 million and $100 million of lost tax revenue in 1996 (p. 61). In addition to common forms of non-compliance found in other industries (such as non-lodgement of returns and understatement of income), the ATO identified:

... significant instances of cheques being cashed through a third party in order to obtain cash which is not disclosed as income. This practice is known as cheque laundering and the ATO investigations have shown that a significant portion of income which eventually reaches ‘outworkers’ has been subject to this process. (Collins Report 1996b, p. 604)

The introduction of the Reportable Payment System (RPS) on 1 December 1994 was an attempt to increase the level of compliance with existing tax laws. In the clothing industry, the RPS covers all activity between manufacturers and contractors, between contractors and other contractors and between contractors and homeworkers. These taxpayers are required to report payments relating to each stage in the manufacturing process. For example, a payment by a manufacturer to a contractor to have shirts assembled, and a payment by a contractor to a homeworker for the same work should be reported.

The ATO has not made a full assessment as yet of the impact of the RPS. However, notwithstanding the general performance of the RPS, the ATO suggested that:

The Reportable Payments System in itself does not have a means of preventing RPS money laundering by clothing manufacturers and sub-contractors. (Collins Report 1996b, p. 597)

The ATO argued also that enforcement costs were a heavy burden on its resources:

The investigation into the clothing industry, particularly cheque laundering, has been one of the most difficult and resource intensive activities the ATO has undertaken in recent years. This is due to the high level of resistance encountered coupled with a willingness by participants to continually seek new ways of avoiding their taxation obligations. As a result the ATO has been required to use an ever increasing number of staff on this activity. (Collins Report 1996b, p. 605)

Reduced reliance on an income-based tax structure would reduce the ability of taxpayers to avoid their liability.
5.2 Regulation in the TCF industry

Regulation is used by most developed economies to promote economic efficiency and equity goals not otherwise achievable through unfettered markets. However, regulations can have unintended effects and high costs, especially if they are too prescriptive or inconsistent. A number of participants argued that the general burden of regulation places unreasonable costs on firms. For example, Gibbs Burge estimated that the burden of regulation (together with taxes and superannuation) accounted for between 20 and 30 per cent of its turnover (sub. 26, p. 2).

Many submissions claimed that the regulatory burden was excessive, and placed them at a disadvantage compared with overseas competitors:

> [Although] ... Australia’s costs are comparable with those in developed countries (for example, Italy and USA) they are much higher than Asian countries where labour costs are extremely low. Effluent infrastructure, treatment and disposal costs are also very low in Asia where non-compliance, non-enforcement and lack of regulation is a common issue. (Australian Leather Holdings, sub. 140, Appendix E, p. 1)

Although participants did not identify TCF-specific regulation as a major issue, the sector may face a relatively higher burden than other industries because of the large number of small and medium-sized enterprises (SMEs) (see Appendix B):

> ... as identified in the Report of the Small Business Deregulation Taskforce, regulatory issues are a major constraint on small business, particularly in regard to compliance issues which create a large paperwork burden. This is a significant issue for a large number of TCF firms ... (Queensland Government, sub. 149, p. 5)

The Commission strongly supports the need for further regulation review and reform. However, any such reforms should take an economy-wide perspective — taking into consideration the impact on all relevant groups in the community, including businesses, consumers, taxpayers and other community groups. While a comprehensive discussion of regulatory reform is beyond the scope of this report, two specific issues — environmental protection legislation and NICNAS, both concerning primarily the leather industry — were raised by several participants.

5.2.1 Environmental regulation

Environmental protection is an expanding area of regulation. Although all TCF firms must comply with environmental regulation, it is principally an issue
associated with some processes in wool scouring, textiles manufacturing (such as dyeing and finishing) and the leather tanning industry.

Leather tanning operations typically produce large volumes of effluent, often with offensive odours, and extreme pH levels. The primary pollutants are organic matter, suspended particles, salt, chromium salts and sulphides. Tanneries predominantly discharge their treated effluent into sewers or, where access to sewers is unavailable, settlement ponds. Salt presents particular disposal problems in inland regions, especially where land salinity is already an issue.8

However, the Australian Leather Industries Association (ALIA)9 pointed out that:

Although effluent is produced by the leather making process, it is disposed of by way of carefully controlled processes. (sub. 229, p. 7)

Furthermore, due to considerable improvement in the Australian tanning industry since the early 1980s, the industry is:

... considered a world leader in many important environmental areas, such as effluent and waste control, recycling of chemical inputs, and in minimising the use of salt in the tanning process. ... In these and in other areas, there have been significant increases in overall capital expenditure, as well as research and development by stakeholders. (FTAA, sub. 92, p. 3.6)

Notwithstanding technological advances in pollution control, some participants argued that Australia’s environmental standards have a detrimental effect on the industry’s international competitiveness:

Modern plant and equipment assists in minimising the cost of environmental compliance, however statutory requirements are in general significantly more stringent than those that apply to other countries in our region. This adds to our cost of manufacturing and represents a further disadvantage when compared to some of our competing countries. (Godfrey Hirst, sub. 113, p. 26)

Similarly, the ALIA argued that the Australian leather industry’s:

... responsible and pro-active attitude to environmental management is also a negative at times in the international trading arena. This is because many lesser developed countries, without the need to absorb high costs of environmental compliance, can undercut prices. (sub. 92, p. 3.3)

However, as the Industry Commission has stated:

---

8 The Commission is currently conducting a separate inquiry into Ecologically Sustainable Land Management which will address salinity issues in detail.

9 Formerly the Federated Tanners Association of Australia (FTAA).
[Although] Australia’s environmental standards are more stringent than those in many other countries, including many developed nations, ... this does not mean that they are inappropriate. ... In determining the level of environmental regulation in Australia, the appropriate benchmark is Australia’s own environmental needs and objectives, not the level of regulation applied overseas. (IC 1996c, p. 182)

The Commission also found that, in general, Australia’s environmental regulations and regulatory framework were not a major factor in decisions to invest offshore (IC 1996c). Indeed, it may have provided the TCF industries with a competitive edge in low pollution technology — which is a competitive advantage in the location of early stage processing and the export of technology.

However, some participants argued that the approval and compliance procedures were onerous (for example, Textile Institute (Southern Australia Section), sub. 119 and TFIA, sub. 66). This criticism reflects, in part, Australia’s regulatory framework. That is, although most environmental regulation is administered by the State and Territory environmental protection agencies, responsibility is also shared with Commonwealth and local government agencies.

**Box 5.4: The National Environment Protection Council (NEPC)**

The NEPC is a Ministerial Council comprising representatives from the Commonwealth and all State jurisdictions. The NEPC stems from the Intergovernmental Agreement on the Environment (IGAE), which was agreed at the Special Premiers’ Conference held in October 1990, and came into effect on 1 May 1992. The NEPC was formed under the National Environmental Protection Council Act 1994, and held its first meeting in June 1996. The objective of the NEPC is to ensure that:

- protection from air, water, noise and soil pollution is equivalent wherever Australians live; and
- variations in major environmental protection measures between jurisdictions do not distort business decisions and fragment markets.

Complementary legislation has been passed by all jurisdictions in Australia enabling the NEPC to make national environmental protection measures (NEPMs) (which are adopted automatically as law by all States), guidelines, goals and associated protocols. The Council also monitors and reports on the implementation and effectiveness of any such measure.

There have been recent moves to review legislation at the State level and harmonise environmental requirements across State jurisdictions. For example, the New South Wales legislation is currently undergoing a major review to
consolidate the three existing Acts into a single Act. In addition to the establishment of the National Environment Protection Council (NEPC) early in 1997 (see Box 5.4), moves towards national harmonisation of environmental regulation include the development of the National Water Quality Management Strategy (NWQMS). National guidelines focusing on specific water resource issues are being developed as part of the NWQMS. Guidelines prepared to date include:

- *Effluent Management Guidelines For Wool Scouring* (Final Draft); and

The *Effluent Management Guidelines for Tanning and Related Industries* were developed by a working group with members from the CSIRO and the tanning industry, and from the two Ministerial Councils responsible for developing the NWQS — the Australian and New Zealand Environment and Conservation Council (ANZECC) and the Agriculture and Resource Management Council of Australia and New Zealand (ARMCANZ). These guidelines are in the final stage of preparation and are expected to be approved before the end of 1997.

*National Industrial Chemicals Notification and Assessment Scheme (NICNAS)*

Several participants expressed concern about the approval process for industrial chemicals under NICNAS. NICNAS was established in 1989 to assess the risks to workplace health and safety, public health and the environment associated with the importation, manufacture or use of industrial chemicals.\(^\text{10}\) The principal focus of NICNAS is on ‘new’ chemicals entering Australia, even though ‘new’ chemicals are generally regarded as being less hazardous than ‘old’ chemicals.\(^\text{11}\) Some chemicals qualify for a ‘limited notification’ — for example, chemicals introduced in small quantities for the purpose of commercial evaluation and ‘polymers of low concern’ (NOHSC 1996).

Assessments are based on a dossier of information on the use and properties of a chemical, supplied by the manufacturer or importer. Once a chemical satisfies the notification and assessment requirements, the supplier is given a certificate which allows the importation and manufacture of the chemical.

\(^{10}\) The *Industrial Chemicals (Notification and Assessment) Act 1989* provided for the establishment of a notification and assessment scheme.

\(^{11}\) When NICNAS was introduced in July 1990, an inventory was prepared of about 38,500 industrial chemicals already in use. These ‘old’ chemicals were exempted from the automatic assessment which applies to all ‘new’ chemicals. Some (very few) ‘old’ chemicals have been selected for assessment as Priority Existing Chemicals.
Although the leather and textiles industry are significant users of chemicals, most notifications are submitted by the chemical wholesalers. For example, Ciba Specialty Chemicals stated that in the six years of the scheme’s operation they have submitted 47 Full Notifications and 41 Commercial Evaluation Permits, the majority of which relate to the textiles industry (sub. 68, p. 2).

Several participants argued that the high cost and lengthy application process of current NICNAS arrangements discouraged the introduction of new chemicals for use in TCF manufacturing, which affected their competitiveness relative to similar goods from countries which already had adopted these substances. For example, the ALIA stressed an “urgent” need for review of current NICNAS arrangements to:

... allow appropriate and speedy access by the tanning industry to chemical products which will aid industry in being competitive in the world context.
(sub. 229, p. 6)

Other participants argued that current NICNAS arrangements imposed environmental costs by delaying the introduction of chemicals which represented less risk than substances which they would replace.

Although there is a statutory 90 day maximum time limit for assessment of new chemicals, this does not include the time required for obtaining information from the supplier. The actual assessment times can be much longer. For example, the CSIRO stated:

... it can take up to 3 years for new products and formulations to be allowed into Australia. Even relatively small changes in polymer formulations, for example, can prevent the entry of a new product. In addition, the scheme inhibits local innovation because new products and formulations developed in Australia are subject to an expensive and time consuming process before they can be extensively trialed in industry. (sub. 131, p. 4)

Such delays represent real costs to industry. For example, Australian Leather Holdings estimated that early access to a new water soluble acrylic product would have saved them about $2 million over three years (see Box 5.5).

Participants also argued that current arrangements for notification and assessment were costly in terms of application fees and organisational resources:

The cost of assessment can be $8000 in fees (not including the costs of developing the information for submission) for each new component in a product. This requires considerable technical input on product characteristics and takes up to 12 months to gain approval. (Plastics And Chemicals Industries Association, sub. 52, p. 2)
Box 5.5: Acrylic Finishing Chemicals

In 1991, a new water soluble acrylic product was developed for use in the finishing of leather. This product forms part of a system which offers truly new technology rather than modification of existing technology.

Three of the products in the system contained new polymers that had to be assessed and registered under NICNAS before the system could be used in Australia. Preliminary trials at Australian Leather Holdings (ALH) showed that the new technology would have the following advantages over the system that was currently in use:

- 30 per cent decrease in the quantity of chemical used (two rather than three finishing coats);
- 30 per cent decrease in the chemical cost of water based finishing; and
- 30 per cent increase in number of hides processed through the spray finishing equipment.

If ALH had had access to the new system when it was first released in the USA in 1991, it could have saved 30 per cent on chemical costs for hides finished with water-based products. With 5000 hides processed in this way each week this amounts to a potential saving of $13,500 per week. Not having the technology available immediately in Australia was estimated to cost ALH $2 million over a period of three years.

Source: Australian Leather Holdings, sub. 140, Appendix D, pp. 5–6

Some participants suggested that high notification and assessment costs (which are around $75,000 on average (Ciba Specialty Chemicals, sub. 68, p. 2)) are a deterrent to chemical companies. That is, the market for chemicals in Australia is small (about 1 per cent of the global market), and chemical companies are reluctant to finance the cost of a notification for such a small, uncertain market:

For new specialty chemicals that may only be used in small quantities the returns to chemical suppliers may not be large enough to justify registration under the NICNAS system when the total costs are considered (collating existing data, obtaining data specifically for the NICNAS system, NICNAS registration charges etc). (Australian Leather Holdings, sub. 140, Appendix D, p. 4)

The direct cost of notification and assessment is likely to rise in the future. Before 1 July 1997, NICNAS was required to recover half its costs from industry. Following recommendations of the Gwynne Review in 1995, NICNAS has moved to full cost recovery from 1 July 1997.

Ciba suggested the full cost recovery policy has increased notification and assessment costs by around 44 per cent (see Table 5.5). Ciba argues that:
... under the revised NICNAS fee structure we would be most unlikely to proceed with such introductions. All registration introductions are now approached with great care, particularly as the Industry has an uncertain future. (sub. 262, p. 2)

Table 5.5: Impact of post 1 July 1997 NICNAS full cost recovery on typical notification and assessment costs (per product)

<table>
<thead>
<tr>
<th>NICNAS evaluation cost</th>
<th>Before 1 July 1997 ($</th>
<th>After 1 July 1997 ($</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NICNAS fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial evaluation permit</td>
<td>1 000</td>
<td>2 600</td>
<td>160.0</td>
</tr>
<tr>
<td>Exempt information</td>
<td>500</td>
<td>500</td>
<td>0.0</td>
</tr>
<tr>
<td>Full registration</td>
<td>6 700</td>
<td>11 700</td>
<td>74.6</td>
</tr>
<tr>
<td>Variation of information</td>
<td>500</td>
<td>500</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total NICNAS fees</strong></td>
<td><strong>8 700</strong></td>
<td><strong>15 300</strong></td>
<td><strong>75.9</strong></td>
</tr>
<tr>
<td>Administration costs in preparation of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial evaluation permit applications</td>
<td>2 000</td>
<td>2 000</td>
<td>0.0</td>
</tr>
<tr>
<td>Registration dossiers</td>
<td>4 300</td>
<td>4 300</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total administration costs</strong></td>
<td><strong>6 300</strong></td>
<td><strong>6 300</strong></td>
<td><strong>0.0</strong></td>
</tr>
<tr>
<td><strong>Total NICNAS evaluation costs</strong></td>
<td><strong>15 000</strong></td>
<td><strong>21 600</strong></td>
<td><strong>44.0</strong></td>
</tr>
</tbody>
</table>

- These cost comparisons were supplied as an example by Ciba Specialty Chemicals, and relate to introduction of a range of products (four) for a customer wishing to export to the US. The costs listed above apply to each product. Each product required Commercial Evaluation Permits and subsequently Full Registration. Ciba also suggested that in the example cited, they would most likely have had to employ Commercial Evaluation Permit extensions due to low sales volume. Under full cost recovery, such extensions incur a cost of $2100 per substance notification (compared with $1000 under the pre-1 July 1997 system).

Source: Ciba Specialty Chemicals, sub. 266, pp. 1–2.

- Full cost recovery is appropriate where a public benefit cannot be demonstrated. In such circumstances, full cost recovery represents the internalisation (by industry) of all external costs generated by commercial activity. However, it is essential that the fee levied to firms accurately represent the cost of efficiently providing the service. This is particularly an issue where regulatory bodies operate in a monopoly position.

- Scope exists for reducing the time and cost associated with new notifications without substantially increasing the risk of introducing an unduly hazardous chemical. In particular, there is greater scope for utilising overseas evaluations. The isolation of Australia’s chemical assessment scheme in a global chemical
market adds to notification costs and delays access to new chemicals. As one participant noted:

> It is a continual source of frustration that chemicals developed and assessed in countries such as Germany, Switzerland and the United States of America cannot be accepted under the Australian system without a complete and separate assessment from that accepted in their countries of origin. (Australian Leather Holdings, sub. 140, Appendix D, p. 1)

Participants acknowledged that uniquely Australian interests must be taken into consideration when using existing evaluations. For example, Ciba suggested:

> ... the company should perhaps provide any special risk analysis for Australia to show that there is no circumstance in Australia which would be different to the one in Europe. ... the Australian government and Australian community could have the right to look at special cases, particularly in the rural areas...

(DR trans., p. 630)

The need to retain some capacity to assess uniquely Australian interests\(^ {12} \) does not diminish the benefits from improving links with the world regulatory system and taking advantage of existing evaluations. Previous work by the Commission found that for the Therapeutic Goods Administration (the equivalent to NICNAS in the Pharmaceutical Industry):

> This can be achieved to an increasing extent by different measures — international harmonisation of standards and data requirements, exchange of evaluation reports and by giving weight in evaluations to the decisions of other countries. ... Over time, Australia should seek mutual recognition with the evaluation decisions of comparable countries. (IC 1996d, p. LIX)

NICNAS has made some progress towards integrating international information. For example, in its 1995-96 Annual Report, the National Occupational Health and Safety Commission (NOHSC) refers to NICNAS “expanding the number of pilot projects which share assessment information between countries” (NOHSC 1996, p. 41). Ciba Specialty Chemicals agreed that there has been some progress in incorporating overseas assessments:

> There is now a pilot program which has started with the United Kingdom and Germany with NICNAS, to pilot this sort of program, so I would hope in the next 12 months we will have something similar ... [recognition of overseas evaluations] ... and what you are foreshadowing that will come out of this process, and I think that within 12 months to 2 years we could expect that there will be a better interchange of this regulatory information so that I think it is going to free up the situation. (DR trans., p. 631)

Ciba nonetheless expressed a need to speed the pace of reform:

---

\(^{12}\) Such as unique flora and fauna.
NICNAS should continue to pursue integration into the world regulatory system as a high priority.

Finding

Delays and costs associated with obtaining approvals for use of industrial chemicals under National Industrial Chemicals Notification and Assessment Scheme (NICNAS) in TCF manufacturing could be reduced by aligning Australia more closely with other countries with similar standards, including making more use of mutual recognition arrangements.

Companies using existing evaluations should demonstrate that circumstances in Australia do not differ substantially from those on which the existing evaluation is based, and provide risk analysis where uniquely Australian conditions exist.

5.2.2 Other regulation issues

Labelling

Labelling schemes are used commonly to overcome information asymmetries which could increase the risk to consumer safety or prevent consumers from making informed choices. Two aspects of labelling are relevant to TCF — ‘place of origin’ identification and labelling relating to fibre content. These are examined below.

As discussed in the Industry Commission’s recent Packaging and Labelling report (IC 1996f), there is widespread consumer demand for accurate ‘place of origin’ labelling. However, some participants argued that current arrangements for clothing were weak:

Garments can bear the same ‘made in Australia’ label irrespective of whether they are made from domestic or imported content, and there is no requirement that the use of imported components be disclosed. There is no label which allows consumers with a preference for Australian product to easily identify it. (Rocklea Spinning Mills, sub. 50, p. 8)

At present, place of origin labelling for TCF products is governed by Sections 52 and 53(eb) of the Trade Practices Act 1974, which relate to “misleading conduct and deceptive conduct”, and “false or misleading representations”, respectively.

The Federal Court makes a determination on whether a label accurately describes a product’s place of origin. Some participants argued that this
approach increases uncertainty and compliance costs, and should be replaced with a more objective method of determining a product’s place of origin:

A very carefully defined labelling law requirement must be established ensuring clear and easily noticed labels with clarity regarding country of manufacture with heavy fines ... The onus of proof to be on the importer and not on the Australian manufacturer. (Australian Dyeing Company, sub. 4, p. 6)

One alternative suggested by Sheridan Australia was a scheme:

... under which a value added formula could be used to determine country of origin. (sub. 51, p. 11)

Although this approach would be more objective and has intuitive appeal, the information requirements for an assessment may be substantial, especially for complex products with many stages of production.

Labelling standards relating to fibre content and care are developed by the Standards Association of Australia (SAA). About 220 of the 5750 standards developed by the SAA apply to TCF products — ranging from the definitions of natural and man-made fibres (AS/NZS 2450:1994) to safety standards governing children’s nightclothes (AS 1249-1990). Although most standards are voluntary, some gain legal weight under Section 65E of the Trade Practices Act 1974, which states:

The Minister may, by notice in writing published in the Gazette, declare that, in respect of goods of a kind specified in the notice, a particular standard, or a particular part of a standard, prepared or approved by the Standards Association of Australia or by a prescribed association or body, or such a standard or part of a standard with additions or variations specified in the notice, is a consumer product safety standard for the purposes of section 65C or a consumer product information standard for the purposes of section 65D. [s65E]

The care labelling standard13 was first declared a consumer product information standard in 1979 to ensure that consumers, drycleaners and launderers had appropriate information about care procedures and the potential cost of caring for products when buying them.

Some participants argued that care labelling requirements were excessive and raised their costs (Victorian Government, sub. 152; TFIA, sub. 66). However, it is not clear to what extent consumers demand — or are willing to pay for — care labelling. If consumers do demand care labelling and are willing to pay for it through higher prices, it will be provided by manufacturers on a voluntary

---

13 The full title is “care labelling of clothing, household textiles, furnishings, upholstered furniture, bedding, piece goods and yarns” (AS 1957-1987).
basis. If, on the other hand, consumers do not demand care labelling, the compulsory requirements will distort consumer behaviour.

The economic consequences of current care labelling arrangements are being reviewed by the Department of Industry, Science and Tourism in accordance with the requirements of the National Competition Agreement and the Commonwealth Legislation Review Schedule.

Other mandatory standards relate to content labelling. However, these were not raised as issues by participants.

5.2.3 Business inputs

Several participants have criticised the slow pace of microeconomic reform. In particular, inadequate progress in reforming ports, rail and road transport, gas and electricity utilities and taxation has been identified as presenting particular difficulties for the industries. The Commission agrees that there is more that can be done to reduce the price and improve the quality of business inputs, such as energy and transport. Governments play a major role in regulating or owning such infrastructure. Considerable progress has been made in some areas — between 1989-90 and 1993-94, total factor productivity in government business enterprises involved with electricity, gas and water grew by 28 per cent; transport and storage by 25 per cent; and communication by 51 per cent (EPAC 1995). However, there is still more to be done. Through its work with the Steering Committee on National Performance Monitoring of Government Trading Enterprises, the Commission has observed many areas in which the performance of some States’ infrastructure is lagging (Steering Committee 1996). Also, there are still considerable gaps between performance in some Australian States and international best practice (BIE 1994). Besides restrictions on competition in some of these areas, the Commission has observed that other factors leading to poor performance include:

- in sectors such as electricity, gas and road transport, the subordination of the national interest to parochial regional concerns has stymied or delayed the development of national markets;
- there are still significant gaps in the integration of the different transport services;
- there are deficiencies in Australia’s stock of infrastructure assets in sectors such as roads. (PC 1996, p. 75)
5.3 Summary

- Many participants identified current taxation arrangements as a disincentive to investment, and a major constraint on the international competitiveness of the Australian TCF industry. The need for a broad-based reform of taxation arrangements was acknowledged by many participants. This has been reinforced by the recent High Court decision regarding State ‘business franchise fees’, which has contributed to the Government’s decision to accelerate the process of tax reform.

- Notwithstanding the need for broader reform, payroll tax (PRT) and wholesale sales tax (WST) were identified as priority areas for reform.

- Under current arrangements, the majority of TCF firms are below the threshold for PRT and most TCF products are exempt from WST. This suggests that the burden of these taxes is likely to be low for most TCF activity when compared with other industries.

- Economic analysis of PRT within the context of existing State/Federal fiscal arrangements and the need for revenue neutrality suggests that this tax is likely to be less distortionary than many feasible alternatives.

- There is nonetheless scope for increasing the overall efficiency of the payroll tax system by broadening the existing tax base by reducing or removing threshold and other exemptions.

- Notwithstanding the exemption of most TCF products from WST, many participants argued that a broader-based value-added tax would enable reductions in other taxes and provide a net benefit for Australian TCF manufacturers.

- Participants argued that the regulatory burden was excessive and placed them at a disadvantage relative to other countries. Specific issues related to environmental regulation and chemical notification regulation.

- The delays and costs associated with current NICNAS arrangements could be reduced by aligning Australia’s notification standards more closely with those of countries with similar standards. This would include making more use of mutual recognition arrangements and overseas assessments.
PART C

ASSISTANCE ISSUES

6 Australia’s TCF trade measures

7 Trade barriers in other countries

8 Government programs to improve competitiveness

9 The Import Credit Scheme

10 The path of assistance reform
6 AUSTRALIA’S TCF TRADE MEASURES

As a result of the reforms of the last decade, Australia’s TCF trade barriers are now much lower and simpler. However, there is still a wide disparity in assistance for different activities in TCF. Tariffs for some parts of TCF are still the highest in the manufacturing sector. Other parts of TCF receive little or no assistance, as does the rest of the manufacturing sector (except for passenger motor vehicles). While the removal of import quotas and bounties has simplified the structure of assistance, a number of complex concessional arrangements continue to have a significant effect on that structure.

This chapter examines the structure and effects of Australia’s current barrier assistance, including substantive tariffs, and preferential arrangements and concessions such as policy by-laws and the Overseas Assembly Provisions (OAP) Scheme. The Commission’s recommendations on the scheme are contained in Chapter 11.

Dumping was an issue of concern to a number of participants. As most of the issues involved do not appear to be specific to TCF, the Commission takes the view that they are best considered in a broader context rather than that of a single industry. Participants' views on dumping are discussed Section 6.1.4.

6.1 Tariffs

6.1.1 The level of assistance

For most of the manufacturing sector, the level of government assistance has been declining since the 1970s. By the mid-1980s, there were two significant exceptions to this general trend—passenger motor vehicles and TCF.

Nominal rates of assistance to TCF industries peaked in the mid-1980s, at which time they were up to 5 times the manufacturing sector average. At that time, the industries were assisted by an array of bounties, quotas and tariffs. TCF assistance levels began to fall with the expansion of import quotas during the second half of the 1980s (see Figure 6.1).

Quantitative restrictions on imports (quotas) were the major cause of rising levels of assistance in TCF in the decade after 1974. From 1974, import quotas were used for footwear. Tariff quotas, which applied to clothing and textiles, allowed quota holders to import a certain quantity at the normal tariff rate, and
import out of quota at penalty rates of duty. Penalty rates were usually prohibitively high, and imports out of quota were relatively small. Even as late as 1988, nominal rates of assistance for some goods subject to quota were as high as 205 per cent (IC 1995a).

Both tariffs and quotas are designed to assist local manufacturers by restricting imports. Tariffs operate through a direct effect on prices, while quotas directly restrict the quantity of imports. Quotas also lead to increased prices of both the imported commodity and locally produced substitutes in three ways:

1. by preventing substitution between imported goods and higher-priced locally produced goods, the average price is higher than it would be in the absence of the quota;
2. the restricted supply of imports raises demand for the locally produced goods. Local producers are therefore able to raise prices above what they would be in the absence of the quota; and
3. prices of the imported goods are also likely to be higher due to their ‘scarcity value’.

Figure 6.1: Nominal rates of assistance on output, 1968-69 to 2000-01

Note: Estimates have been rebased 5 times over this period (1971-72; 1974-75; 1977-78; 1983-84; 1989-90). Data include the effect of quotas, based on the base tariff rate plus the clearing bids for quota at the annual sales (see Appendix I).

Source: Commission estimates
Australian import quotas were based on quantity, not value, and as such they may have encouraged importing of higher value goods — so called ‘quota migration’ — and local production of basic commodities. When quotas were removed, even high levels of tariff assistance did not provide the same degree of protection, as local producers were no longer guaranteed local market share, and had to compete with imports on quality and design.

In 1989, a program of phased annual reductions of TCF assistance began. Various changes to these phasing arrangements (see Appendix I for detail) will result in tariff levels falling to 25 per cent for clothing, 15 per cent for most textiles and footwear, and 10 per cent for some items including footwear parts and table linen, by 2000. These levels are substantially below those applying a decade ago. In 2000, however, tariff protection for most parts of the TCF industries will remain the highest of any in the manufacturing sector, including the automotive industry (see Table 6.1).

Table 6.1: Selected tariff phasing arrangements: 1990 to 2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel and certain finished textiles</td>
<td>55</td>
<td>51</td>
<td>43</td>
<td>37</td>
<td>31</td>
<td>25</td>
</tr>
<tr>
<td>Footwear</td>
<td>45</td>
<td>41</td>
<td>33</td>
<td>27</td>
<td>21</td>
<td>15</td>
</tr>
<tr>
<td>Woven fabrics</td>
<td>40</td>
<td>37</td>
<td>31</td>
<td>25</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>25</td>
<td>23</td>
<td>19</td>
<td>15</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Passenger motor vehicles</td>
<td>40</td>
<td>35</td>
<td>30</td>
<td>25</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>General manufacturing</td>
<td>15</td>
<td>10–5</td>
<td>10</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Note: Tariff reductions occur on 1 July each year from 1992.

Source: IC 1995a

A better measure of the assistance afforded to industries by tariffs and import quotas is the concept of the ‘effective rate of assistance’, which takes into account not only the benefits of assistance to output, but also the costs of the assistance to production of inputs. In looking at the net effect of assistance, some policies may favour certain activities over others within the sector. The policy by-laws are a good example. As discussed below, significant quantities of intermediate inputs are imported duty-free under the by-laws. This has the effect of increasing the level of assistance to users (such as clothing manufacturers) relative to the level of assistance to competing activities which use inputs for which there is no by-law concession. Industry effective rates of assistance, while averages, are adjusted to reflect these factors (see Box 6.1).
Box 6.1: Nominal and effective rates of assistance

The effects of industry assistance can be expressed in a number of ways. The measures described in this report are the nominal rate of assistance on output (NRA), and the effective rate of assistance (ERA).

Nominal rate of assistance on output

The NRA measures the gross assistance to producers provided by government interventions. It indicates the extent to which producers are able to charge higher prices to consumers and users because of tariffs, quotas and the value of taxpayer subsidies to them. Two major steps are involved in calculating NRA. Essentially, it involves weighting individual tariff lines by the value of their local production. Production weights are used as a means of focusing on the effect of the tariff in attracting resources to local production.

Effective rates of assistance

The ERA measures the net assistance effect of government interventions for an activity or industry. The ERA is the percentage net assistance given to a production activity per unit of value added of that activity.

Calculation of NRAs and ERAs, including the impact of the policy by-laws and other concessional entry, is described in greater detail in Appendix I.

When assistance levels for TCF peaked in the 1980s, effective rates of assistance were more than ten times the manufacturing sector’s average (see Figure 6.2). Since then, the substantial decline in effective protection of TCF manufacturing has reduced the gap to around 7 times the average for manufacturing as a whole in 1996-97.

In 2000, average (production-weighted) effective rates of assistance at the broad industry level are estimated to be 17 per cent for textiles, 33 per cent for clothing and 24 per cent for footwear. At a more disaggregated level, the estimates range from less than 1 per cent for some activities to over 60 per cent for some clothing activities (cardigan and pullover manufacturing).

As discussed below, there is also wide variation between similar activities due to the impact of the policy by-law system.

6.1.2 The TCF tariff structure

Although the TCF tariff schedule itself is large and complex — comprising around 20 of the 97 chapters of the Customs Tariff ("the Tariff") schedule — the
rate structure is now relatively simple. Rates tend to escalate, with higher tariff rates applying to goods at higher levels of processing. In 2000, for TCF tariff lines above the general tariff rate, there will be only three different rates — 25, 15 and 10 per cent. However, the tariff is complicated by the interaction of the policy by-law system (see Box 6.2).

![Figure 6.2: Effective rates of assistance, 1968-69 to 2000-01](image)

Note: Estimates have been rebased 5 times over this period (1971-72; 1974-75; 1977-78; 1983-84; 1989-90). The assumptions behind the model have remained essentially the same throughout. The main factors behind the reduced ERA estimates in the 1989-90 series were changes in the industries’ production and materials use data.

Source: Commission estimates

Almost all clothing items (Chapters 61 & 62) attract the same general tariff. However, there is wide variation in the general rates in other chapters. For example, Chapters 50 to 55 are arranged by fibre, so that within each chapter the general rates typically range from zero (for the raw fibre), to 5 per cent (for yarns), up to a maximum (in 1997-98) of 22 per cent for fabrics. Footwear (Chapter 64) contains a range of general tariff rates due to the inclusion of different rates for footwear parts.

While the problem is not as great as it was before the tariff simplification programs of the 1980s, there are still some cases where close substitutes in either production or consumption attract different levels of duty (see Table 6.2, further examples are contained in Appendix I).
Box 6.2: What duty is payable?

Different parts of the tariff system interact in complex ways. For example, an Australian importer who imports goods classified in the Tariff under 5208.5, relating to printed and woven fabrics containing more than 85 per cent cotton and weighing less than 200g/m². Fabrics fitting this description which are suitable for bedsheeting or are more than 132 cm wide attract a tariff of 22 per cent; others attract 21 per cent (in 1997-98). However, it may be possible to gain duty-free access under several by-laws, subject to fabric weight and end-use.

BL 9640096 allows duty-free entry if the fabric weighs less than 125g/m² and is used for clothing or headgear, or for bias binding or piping. However, the by-law does not extend to fabrics used in the manufacture of lining or pockets. Fabric may be imported duty-free under this by-law for use in any other manufacturing process if the width is less than 115cm, unless the filament yarn contained within costs more than $1.50 per m².

BL 9340021 allows duty-free entry of these fabrics if they contain less than 20 per cent by weight of synthetic fibres and less than 20 per cent wool, and the fabric is used for anything except bed linen.

BL 9340022 allows duty-free entry if the fabric has less than 20 per cent man-made fibres and less than 20 per cent wool, has a raised nap on one or both sides and has a thickness of 0.6mm or more when measured at a compression of 5g/cm², as well as a thickness of at least 0.15mm less than when tested at 50g/cm². There is no restriction on use under this by-law.

BL 9340024 allows duty-free entry if the fabric weighs less than 125 g/m², and is imported for impregnating or laminating with plastics with a permanent addition of 30g/m². The importer may sell it in that form, or may make it up into any finished product except curtains.

Currently, there are no Tariff Concession Orders applicable to commodities classified under 5208.5.

Source: Customs Tariff Act 1995; Schedule 3, Part II - Instruments issued to items in schedule 4 to the Customs Tariff, Schedule of Concessional Instruments

Tariff also contains certain anomalies which result in apparently unintended effects on relative levels of assistance. The levels of assistance on the manufacture of a finished product vary significantly depending on the type of intermediate inputs, which also may attract differing levels of duty. Thus manufacturers of clothing made from some types of silk fabrics receive higher effective assistance than those using synthetic fabrics, as there is a zero tariff on silk while that on synthetic fabrics is 21 or 22 per cent.
Table 6.2: Anomalies in the tariff system, 1997-98

<table>
<thead>
<tr>
<th>Item</th>
<th>Duty (%)</th>
<th>Related product</th>
<th>Duty (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>leather sandals</td>
<td>24</td>
<td>leather sandals with a strap over the big toe</td>
<td>0</td>
</tr>
<tr>
<td>bed linen</td>
<td>34</td>
<td>table linen</td>
<td>13</td>
</tr>
<tr>
<td>hand towels</td>
<td>21</td>
<td>tea towels</td>
<td>0</td>
</tr>
<tr>
<td>curtains and drapes</td>
<td>34</td>
<td>blinds</td>
<td>13</td>
</tr>
<tr>
<td>cotton tablecloths</td>
<td>13</td>
<td>hand-embroidered cotton tablecloths</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Customs Tariff Act 1995, Schedule 3

The operation of the by-law system creates additional variations in relative levels of assistance for similar goods.

The assistance regime also has some perverse effects. In seeking to protect one activity, others may be harmed. For example, in the course of this Inquiry, furniture manufacturers argued that the tariff structure was damaging to domestic furnishing industries, in that they had to pay high tariffs on a major input (textiles), while their output attracted duty of zero or 5 per cent. For example, Burgtec stated:

> The tariffs being provided for the TCF industry are damaging the furnishing industry’s future ... Australian manufacturers importing fabrics ... pay 25 per cent above the world price ... when competing with imported furnishing products sold in Australia, which attract zero to 5 per cent. (sub. 63, p. 1)

Far North Queensland Quilting Services stated that it paid 25 per cent duty on fabrics imported to manufacture bedspreads, while quilted bedspreads can be imported at a duty rate of 15 per cent:

> ... [On] the fabric we import to manufacture bedspreads our company is penalised by 10 per cent before we start. (sub. 15, p. 12)

### 6.1.3 Tariff duty paid

The tariff phase-down has resulted in falling levels of duty payable. In 1995-96, even though the tariff rate was up to 37 per cent for clothing, the trade-weighted duty paid for the TCF sector overall was around 14 per cent of the value of total imports (nearly $700 million in tariff revenue). The difference between the tariff rate and trade-weighted duty paid was due to the combination of low
Table 6.3: Duty paid as a proportion of TCF imports (by value), 1990-91 to 1995-96

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>Silk</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>51</td>
<td>Wool (incl. yarns and fabrics)</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>52</td>
<td>Cotton (incl. yarns and fabrics)</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>53</td>
<td>Vegetable textile fibres (incl. yarns and fabrics)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>54</td>
<td>Man-made filaments</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>55</td>
<td>Man-made staple fibres</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>56</td>
<td>Wadding, felt, twine, cordage, ropes and cables</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>57</td>
<td>Carpets and other textile floor coverings</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>58</td>
<td>Special woven fabrics; eg lace, tapestries, trimmings, embroidery</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>10</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>59</td>
<td>Impregnated or laminated textile fabrics, incl. industrial</td>
<td>13</td>
<td>12</td>
<td>10</td>
<td>7</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>60</td>
<td>Knitted or crocheted fabrics</td>
<td>19</td>
<td>17</td>
<td>13</td>
<td>14</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>61</td>
<td>Articles of apparel and clothing accessories, knitted or crocheted</td>
<td>52</td>
<td>47</td>
<td>37</td>
<td>27</td>
<td>25</td>
<td>24</td>
</tr>
<tr>
<td>62</td>
<td>Articles of apparel and clothing accessories, not knitted or crocheted</td>
<td>50</td>
<td>42</td>
<td>33</td>
<td>27</td>
<td>26</td>
<td>24</td>
</tr>
<tr>
<td>63</td>
<td>Other made up textile articles</td>
<td>20</td>
<td>18</td>
<td>16</td>
<td>15</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>64</td>
<td>Footwear, gaiters and the like</td>
<td>55</td>
<td>47</td>
<td>34</td>
<td>28</td>
<td>26</td>
<td>24</td>
</tr>
<tr>
<td>65</td>
<td>Headgear and parts thereof</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Trade weighted average for Chapters 50 to 65</td>
<td>25</td>
<td>22</td>
<td>18</td>
<td>15</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>

Note: Tariff chapters 50 to 65 include most TCF imports (excluding 4015; chapter 41; 4203; 4205; 4301-4304; 9401-9404), and typically account for over 90 per cent of total TCF imports.

Source: Unpublished ABS data

Tariffs on some intermediates and the various means of concessional entry. In addition, high tariffs discourage imports, and the overall (trade-weighted) average duty paid reflects this discouragement. Tariff rates are highest on clothing and footwear (see Table 6.3). However, the average duty paid on these commodities is below the tariff rates for these commodities because of imports.
of these goods at concessional rates under by-law, and duty-free imports from New Zealand and the Pacific Forum Island countries.\(^1\)

Within the different sectors of the industry, there is wide variation. In the case of fabrics, concessional entry (mainly by-law) is the major factor affecting levels of duty paid. In 1995-96, over 60 per cent of all fabrics came in duty-free under by-law. For cotton fabrics, duty paid was only 4 per cent of the value of total imports in 1995-96. For particular classes of cotton fabrics, this proportion was as low as 1 per cent.

### 6.1.4 Preferential tariffs

As outlined in Appendix J, preferential rates of duty may apply to goods from a ‘preference country’ as a result of either a trade agreement or a unilateral Australian decision to provide preferential access to developing countries.

#### Trade agreements

Australia has specific trade agreements with New Zealand, Papua New Guinea and the Pacific Forum Island Countries which provide for duty-free imports from these countries. Under these agreements, trade in TCF products with New Zealand and Fiji has expanded substantially in recent years (see Tables 6.4 and 6.5). These arrangements provide opportunities for lower-cost countries to operate as an assembly point for Australian manufacturers, subject to rules of origin (see below). In the case of Fiji, this has been further encouraged by the import credit scheme — import credits are not available for exports to New Zealand (see Chapter 9).

Between 1990-91 and 1995-96, total TCF exports to Fiji increased 13-fold, largely due to increased exports of fabrics. By 1995-96, fabric exports accounted for over 70 per cent of total TCF exports to Fiji. TCF exports to New Zealand (mainly clothing) more than doubled in real terms over the same period.

The rise of Fiji as an overseas assembly point is the main reason for the increased trade in TCF between Australia and Fiji. The Fiji Government and the Textile, Clothing and Footwear Council of Fiji submitted:

> ... [South Pacific Regional Trade and Economic Cooperation Agreement] SPARTECA was an important catalyst to the growth of the TCF industry in Fiji. Today TCF is a major industry in Fiji. It is also the fastest growing industry in

---

\(^1\) Collectively, these concessions accounted for low rates or zero duty on around 20 per cent of clothing imports in 1995-96.
The Textiles, Clothing and Footwear Industries

Table 6.4: TCF imports from Fiji and New Zealand, 1990-91 to 1995-96 ($1994-95)

<table>
<thead>
<tr>
<th></th>
<th>1990-91 ($m)</th>
<th>1993-94 ($m)</th>
<th>1995-96 ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiji</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td>16.9</td>
<td>58.7</td>
<td>104.9</td>
</tr>
<tr>
<td>Other(^a)</td>
<td>2.6</td>
<td>14.0</td>
<td>20.8</td>
</tr>
<tr>
<td><strong>Total TCF</strong></td>
<td>19.5</td>
<td>72.7</td>
<td>125.7</td>
</tr>
<tr>
<td><strong>New Zealand</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fabrics</td>
<td>11.1</td>
<td>18.5</td>
<td>24.1</td>
</tr>
<tr>
<td>Clothing</td>
<td>39.9</td>
<td>107.6</td>
<td>110.1</td>
</tr>
<tr>
<td>Leather</td>
<td>48.5</td>
<td>61.5</td>
<td>76.5</td>
</tr>
<tr>
<td>Wool</td>
<td>63.3</td>
<td>73.1</td>
<td>83.6</td>
</tr>
<tr>
<td>Other(^b)</td>
<td>106.3</td>
<td>165.7</td>
<td>160.8</td>
</tr>
<tr>
<td><strong>Total TCF</strong></td>
<td>269.1</td>
<td>426.4</td>
<td>455.1</td>
</tr>
</tbody>
</table>

Note: The above categories are calculated using selected tariff items from the following chapters of the Customs Tariff Schedule 3 — Fabrics: 50-55, 58-59 and 60; Clothing: 61 and 62; Leather: 41; Wool: 51.

a The majority of other imports include (Chapters): (63) bed linen and (64) footwear & headgear.
b The majority of other imports include (Chapters): (40) rubber, (57) carpets and (64) footwear & headgear.

Source: ABS 1997e

the country. In 1995 the industry contributed 22.4 per cent of the total domestic exports, 9 per cent of GDP and employed about 13,000 people, or 14 per cent of the total persons in paid employment in Fiji. ... In 1995, approximately 51 per cent of the TCF products made in Fiji were sold into Australia. (sub. 146, p. 6)

Such agreements between countries with different external tariffs inevitably provide incentives for importers and manufacturers to import inputs into the country with the lower tariff, for manufacture and subsequent export to the other countries.

Some Australian participants highlighted the problems they had where intermediate products which are dutiable in Australia are allowed into New Zealand duty-free, and the finished goods are then exported from New Zealand to Australia duty-free. Australian Textile Printing Company submitted:

New Zealand importers and manufacturers are able to import the same type of fabric (from the same overseas suppliers as sourced from Australia) duty-free into New Zealand and re-export finished goods to Australia duty-free, while Australian importers must pay import duty on the same type of fabric. (sub. 35, p. 2)
Table 6.5: TCF exports to Fiji and New Zealand, 1990-91 to 1995-96 ($1994-95)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($m)</td>
<td>($m)</td>
<td>($m)</td>
</tr>
<tr>
<td>Fiji</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fabrics</td>
<td>2.3</td>
<td>22.2</td>
<td>69.2</td>
</tr>
<tr>
<td>Clothing</td>
<td>1.1</td>
<td>0.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Other(^a)</td>
<td>3.5</td>
<td>8.2</td>
<td>18.5</td>
</tr>
<tr>
<td>Total (TCF)</td>
<td>6.9</td>
<td>31.2</td>
<td>94.5</td>
</tr>
<tr>
<td>New Zealand</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fabrics</td>
<td>25.5</td>
<td>33.9</td>
<td>46.8</td>
</tr>
<tr>
<td>Clothing</td>
<td>46.0</td>
<td>65.8</td>
<td>134.2</td>
</tr>
<tr>
<td>Leather</td>
<td>14.9</td>
<td>24.7</td>
<td>33.2</td>
</tr>
<tr>
<td>Other(^b)</td>
<td>70.9</td>
<td>95.5</td>
<td>156.5</td>
</tr>
<tr>
<td>Total (TCF)</td>
<td>157.3</td>
<td>219.9</td>
<td>364.7</td>
</tr>
</tbody>
</table>

Note: The above categories are calculated using selected tariff items from the following chapters of the Customs Tariff Schedule — Fabrics: 50-55, 58-59 and 60; Clothing: 61 and 62, Leather: 41;
\(^a\) The majority of other exports are (Chapter 41) leather.
\(^b\) The majority of other exports include (Chapters): (57) carpets, (64) footwear & headgear and in 1995-96 (63) bed linen.
Source: ABS 1997e

Centrotex argued that the move to production offshore was related to lower costs and duty-free entry:

Some clients now also manufacture offshore — especially in SPARTECA countries such as Fiji, New Zealand and even New Guinea to remain competitive in part of their product ranges. (sub. 125, p. 2)

Rules of origin

The existence of international trade agreements and preferential trading arrangements requires a means of assigning a country of origin to internationally traded goods.\(^2\) The task is complicated when production consists of a number of components and processes. Internationally, rules of origin have attempted to establish criteria for determining what has been termed ‘the origin-conferring event’. The basic rule of origin in the US and under the Uruguay Round Agreement on Rules of Origin is the requirement for ‘substantial transformation’.

\(^2\) Country of origin as it relates to product labelling is discussed in Chapter 5.
In Australia’s case, under preferential trade agreements with New Zealand and the Pacific Forum Island Countries (ANZCERTA\(^3\) and SPARTECA) a 50 per cent content rule is applied.\(^4\) In the case of SPARTECA, the 50 per cent content rule includes the value of goods produced in the Pacific Forum Island Countries, Australia and New Zealand.

The Government of Fiji submitted that the current rules of origin were hindering the development of a more efficient TCF industry in Fiji:

> The Fiji Textile Clothing and Footwear Industries have requested on many occasions to be freed from the restrictive straitjacket of the 50 per cent local content provision and that it be replaced by a more liberal set of rules of origin. (sub. 146, p. 7)

The Fiji Government argued that the 50 per cent rule created the following problems:

- because intermediate inputs are limited to those from Australia and New Zealand, the range of products which manufacturers in Fiji are able to supply and qualify for the SPARTECA preference is restricted;
- the rule leads to ‘cost padding’ and inefficiency in Fiji so as to reach the 50 per cent level; and
- related accounting issues add to delays (Fiji Government and the Textile Clothing and Footwear Council of Fiji, sub. 146).

The Department of Foreign Affairs and Trade (DFAT) is examining with other agencies the scope for a relaxation of the rule, such as graduated preference according to the level of local content. Ministers from Australia and Fiji are scheduled to meet in October 1997 to review progress and to assess what further approach is appropriate.

Specific rules of origin apply for TCF industries in many countries. These rules can be subject to significant alteration. In 1996 US rules of origin for textiles and apparel were changed, to address attempts to circumvent the Multi-Fibre Arrangement through practices such as transhipment and falsification of country of origin documentation. The changes took effect from 1 July 1996 and mean that, in the case of finished fabrics, the source of export is the country which manufactures the fabric and not the country which manufactures the finished

---

\(^3\) Australian and New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), also referred to as CER.

\(^4\) The 50 per cent content rule is a value-added rule. To qualify for preference, the last process of manufacture must occur in the preference country and not less than 50 per cent of factory cost must be qualifying expenditure. Under both agreements, this rule is administered jointly by the customs authorities of the respective countries.
product. In the case of apparel, the country of sewing will be judged the country of origin.

This change has affected Australian exports to the US. Sheridan Australia manufactured sheets in Australia from fabric sourced in China. Under the old US rules of origin, the sheets were considered an Australian export. Under the 1996 rules, they were considered a Chinese export:

[The change in rules of origin in the US] ... meant that raw material product that we purchase from China, imported to Australia and value added through printing, dyeing, cut, sew, packaging and design would no longer be allowed into the United States as Australian made. (Sheridan Australia, sub. 51, p. 7)

Under the auspices of the WTO, a technical committee (chaired by Australia) is currently developing rules of origin that are consistent with the principles outlined in the Agreement on Rules of Origin reached as part of the Uruguay Round. The work is being undertaken on a product sector basis. The rules will be reviewed by a number of WTO committees before endorsement by the WTO Ministerial Conference.

**Developing country preferences**

Imports from developing countries may receive a preferential rate under the unilateral Australian System of Tariff Preferences. Developing countries are classified into three separate groups (see Appendix J, Attachment J1 for the country lists). Different rates of duty may apply to imports from each of these groups (see Box 6.3). None of the main TCF producers among developing countries, such as China, Indonesia, India, Pakistan and countries of Eastern Europe, are now eligible for preferential treatment for most TCF tariff lines.

Imports from the least developed countries, for which there are preferences, have not been significant. Only Bangladesh has exported substantial quantities of TCF products to Australia, with $18 million of imports into Australia in 1995-96.

These preferential rates, however, do complicate the tariff. The internationally agreed 6-digit tariff structure is quite detailed and technical on its own, without grafting on to it layers of complexity from past assistance regimes. In the Commission’s view, Australia should aim to simplify its TCF tariff to the 6-digit level.

---

5 There are three minor exceptions where the relevant preference rate is 4 per cent and the general rate is 5 per cent. These relate to tanned or dressed furskins (5905.00.10), artificial fur articles (4304.00.90) and textile wall coverings.
Box 6.3: DC, DCT, and DCS preference rates for TCF products

As outlined in Appendix J (Attachment J1), the Customs Tariff describes three different categories of developing country tariff preferences. Each tariff line may specify one or all preferences — DC, DCS, or DCT. The DC category includes countries such as Afghanistan, Haiti, and Yemen. The only significant DC country in terms of Australia’s TCF trade is Bangladesh. DCS countries include China, Pakistan, Thailand, and Indonesia. Hong Kong, Singapore, Taiwan, and the Republic of Korea comprise the DCT economies.

The majority of TCF tariff items specify a general tariff rate and a DC preference rate at 5 per cent below the general rate. Where a DC rate is not specified, zero duty is payable on imports from DC countries.

This is the case for numerous cotton and synthetic yarn tariff items. There are, however, 89 separate tariff items relating to yarns, for which DC countries do not receive preferential treatment. For example, 5106.20.00 Yarn or carded wool, not put up for retail sale containing 85 per cent or more by weight of wool (General: 5 per cent, DC: 5 per cent).

Preferential treatment of countries listed as DCS or DCT has been decreasing over time. In 1995-96 only 9 TCF tariff items specified DCS rates, and 12 TCF tariff items specified DCT rates. Where a DCS or DCT rate is not specified, the general rate applies.

Of the tariff items specifying a DCS rate, 5 are equivalent to the DC rate. In the remaining 4 cases the difference is minimal. For example, 4304.00.90 Artificial fur and articles thereof (General: 5 per cent; DCS: 4 per cent; DCT: 5 per cent).

All specified DCT rates are equivalent to the general rate.

Source: Customs Tariff Act 1995, Schedule 3

Dumping and subsidy issues

Australian legislation and international trade rules provide that action can be taken against dumped or subsidised imports when the dumping causes or threatens material injury to the Australian industry producing like goods. Specifically, the Customs Act 1901 (part XVB), the Customs Tariff (Anti-Dumping) Act 1975 and the Anti-Dumping Authority Act 1988, recognise two types of ‘unfair’ import competition:

- dumping whereby goods are exported to Australia at prices lower than their normal value in the country of export; and
- subsidisation whereby goods are exported to Australia that have been produced or delivered with the benefit of certain kinds of government assistance.
Remedies are available only if it is established that dumped or subsidised imports have caused or threaten to cause material injury to an Australian industry producing like goods, or threaten to materially hinder the establishment of such an industry. The remedy is in the form of an anti-dumping or countervailing duty, designed to offset the price advantage caused by the dumping or subsidisation.

Where actions are available, any anti-dumping action has two offsetting effects: it assists competing Australian producers, to the detriment of Australian users or consumers of the dumped commodities.

Data from the Australian Dumping Authority (ADA) indicate that around 5 per cent (or 12 cases) of anti-dumping or countervailing complaints were initiated by the TCF industries between 1991-92 and 1995-96.

Pacific Brands submitted that the TCF industry was particularly vulnerable to dumping:

The small size of the Australian market, its proximity to the main dumping threats, its off-season advantages to maintain throughput pending Northern Hemisphere sales, and the unrestrained nature of the market ... mean that Australian TCF firms are extremely vulnerable to dumping activity. (sub. 44, p. 37).

In addition:

Chinese import prices do not reflect movement in underlying costs and continue to dominate our import volumes. ... The existence of import price levels that are below international costs ... indicate the need for serious review of TCF import pricing practices. (sub. 44, p. 38)

The TFIA submitted that dumping of TCF products was on the rise:

... there is mounting evidence of a strong rise in dumping of TCF merchandise into Australia [following the removal of quotas]. (sub. 66, p. 24)

In particular, that China:

... [had] ridiculously low [prices, with] clearly unfair average unit values (sub. 200, p. 14)

Similarly, Track n’ Field argued:

Australia is bearing the brunt of China’s dumping of garments into our market because of artificially high barriers in the major USA and European markets. (sub. 208, p. 2)

Other participants stated that current anti-dumping mechanisms were unsatisfactory. Austrim submitted:

Dumping cases involve extended and complex submissions and inquiries with
very uncertain outcomes. There must be a better way for the Government to assist local industry in this regard. (sub. 183, p. 14)

The TFIA also argued that there were unique conditions, relative to other industry sectors, that meant the TCF sector experienced greater difficulty accessing existing remedies, and faced other constraints regarding incentives to initiate anti-dumping action. The reasons given included:

- the requirement that a certain proportion of affected producers must make an application were more onerous in a diverse sector like TCF, relative to one where there are a smaller number of producers;
- the TCF sector faced substantial one-off shipments of products, which made it difficult to establish a trend in trade (necessary for anti-dumping action); and
- retailers benefit from cheaper ‘dumped’ products. The concentrated nature of the retail sector means that there are few buyers but many sellers. Individual TCF manufacturers were not inclined to initiate anti-dumping actions for fear of alienating retailers and losing future business. (sub. 160)

Dumping is not an issue which affects only this set of industries. The Commission believes that the issues raised by participants are best examined in the context of a broader inquiry. The Government has announced that anti-dumping legislation is to be examined in 1997-98 as part of the Commonwealth’s review of legislation which restricts competition. The issues raised by participants in this inquiry should be considered as part of this broader review.6

6.2 Concessional entry

As discussed above, actual duty paid is considerably lower than the substantive tariff rates. The major reason for this is concessional entry items — the largest of which have been the policy by-law system and the Tariff Concession System (TCS).

6.2.1 Policy by-laws

TCF policy by-laws allow the duty-free entry of commodities specified in the

---

6 Anti-dumping legislation is listed for review in 1997-98 in the ‘Commonwealth Legislation Review Schedule’, June 1996. As part of the Competition Principles Agreement, the Commonwealth and all State and Territory Governments agreed to review by 2000 existing legislation that restricts competition.
by-law. Item 40A in Schedule 4 to the Tariff, comprises 20 individual by-laws which relate to TCF. In 1995-96, these accounted for around $450 million of duty-free imports, down from nearly $1 billion in 1994-95. This drop was accounted for by the revocation on 30 June 1995 of BL 9340031, which allowed duty-free entry of cotton and synthetic yarns.

Until 1995-96, imports under by-law accounted for 60 per cent or more of total TCF concessional imports. Other significant concessional entry items have been goods imported for re-export, re-imports (under the OAP), handicrafts, and imports using credits from the Import Credit Scheme (ICS) (see Appendix J).

Most imports under by-law are blended cotton and blended synthetic lightweight fabrics (see Table 6.6). As a proportion of total imports of these goods, import under by-law is significant — in 1995-96, the general rate applying to fabrics was 28 per cent, but the average duty paid on fabrics was less than 10 per cent. For cotton and synthetic fabrics, the duty forgiven on imports under by-law was around $150 million in 1994-95, and $110 million in 1995-96.

Table 6.6: Major TCF by-law imports, 1990-91 to 1995-96, ($1994-95)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m (%)</td>
<td>$m (%)</td>
<td>$m (%)</td>
<td>$m (%)</td>
<td>$m (%)</td>
<td>$m (%)</td>
</tr>
<tr>
<td>Cotton yarns</td>
<td>55</td>
<td>99</td>
<td>79</td>
<td>100</td>
<td>77</td>
<td>100</td>
</tr>
<tr>
<td>Cotton fabrics</td>
<td>188</td>
<td>91</td>
<td>211</td>
<td>89</td>
<td>203</td>
<td>90</td>
</tr>
<tr>
<td>Synthetic yarns</td>
<td>142</td>
<td>94</td>
<td>203</td>
<td>92</td>
<td>189</td>
<td>91</td>
</tr>
<tr>
<td>Synthetic fabrics</td>
<td>119</td>
<td>77</td>
<td>122</td>
<td>74</td>
<td>105</td>
<td>62</td>
</tr>
<tr>
<td>Synthetic staple yarns</td>
<td>196</td>
<td>97</td>
<td>190</td>
<td>96</td>
<td>158</td>
<td>97</td>
</tr>
<tr>
<td>Other</td>
<td>245</td>
<td>251</td>
<td>240</td>
<td>238</td>
<td>215</td>
<td>143</td>
</tr>
<tr>
<td><strong>Total by-law</strong></td>
<td><strong>945</strong></td>
<td><strong>1 056</strong></td>
<td><strong>972</strong></td>
<td><strong>1 023</strong></td>
<td><strong>986</strong></td>
<td><strong>452</strong></td>
</tr>
</tbody>
</table>

a By-law imports as a proportion of total imports of these commodities.

b Figures for yarns in 1995-96 are significantly lower than preceding years due to the abolition of BL 9340031 concerning cotton and synthetic yarns.

.. Less than $1 million

Source: ABS 1997e

The history and policy intent of the TCF by-law system is far from clear. In 1992, the Textiles, Clothing and Footwear Development Authority (TCFDA) was requested to undertake a review of the TCF policy by-law system. That review noted the “... absence of a clear documented background ... [of existing by-laws]” (TCFDA 1993, p. 4).
TCF policy by-laws were aimed at imported goods which were not produced locally. The intent of the 1987 Industry Plan regarding by-laws was to continue the assistance to manufacturers by ensuring access to a wider range of inputs at a lower cost. At the time of the announcement of the Plan (Button 1987), there were more than 50 fabric by-laws in operation, some dating back to the early 1960s. One aspect of the Plan involved a rationalisation of existing by-laws, through the maintenance of those which were used frequently and a phase-out of those that were seldom used.

6.2.2 Tariff Concession System

The Tariff Concession System (TCS) provides that a Tariff Concession Order (TCO) will be granted if substitutable goods are not produced in Australia at the time of the application. As part of changes announced in May 1996 (effective from July 1996), goods classed as consumption goods may be imported duty-free, while other goods attract a 3 per cent duty.

In 1995-96, around $450 million of TCF products and materials entered under TCOs, up from $230 million in 1994-95. Particular classes of yarns, imported under about 100 TCOs, accounted for $90 million of this total. Rubber gloves (14 TCOs) accounted for a further $46 million (see Appendix J).

The large increase between 1994-95 and 1995-96 appears to have been related to the revocation of BL 9340031. Of the increase between the two periods, around $130 million is due to increases in yarn imports under the TCS.

The TCS is the major means of concessional entry for most goods. In the case of TCF, under the Excluded Goods Schedule, most categories of clothing and footwear are specifically excluded from the TCS, as are other classes of goods such as foodstuffs and passenger motor vehicles. While most footwear is excluded as part of the Excluded Goods Schedule, the Footwear Manufacturers’ Association of Australia (FMAA) was concerned that the TCS was working to the detriment of the industry and had not benefited consumers. It cited the particular example of sporting footwear:

The manufacturers of footwear in Australia are very disappointed with the realities of the TCS system. ... it has placed greater pressure on all sectors of local manufacturing ... The other disappointment is the apparent lack of reward to the end consumer ... with the exception of some football boots, prices have not decreased by an amount that would reflect the savings in reduced duty rates. (sub. 103, p. 13)

The FMAA elaborated further:

...TCOs ... it appears, do not work in a fashion industry. They are too hard to
define, mainly because you aren’t allowed to use an end use in a definition for a TCO (DR trans., p. 20)

Other participants were concerned with the effect of the 3 per cent impost announced as part of the changes in May 1996. J Robins said:

[Competitive pressures ] ... have not been helped by the recent 3 per cent increase in costs of goods imported under TCO. (sub. 98, p. 4)

Similarly, Australian Leather Holdings indicated:

A recent Government action that has had a negative impact on costs of the industry’s manufacturing inputs was the imposition of a 3 per cent duty on business inputs under the TCS ... while industry strives to become more competitive it is gallimg to see Government take this action and at the same time retain the duty-free status of imported consumer goods. (sub. 36, p. 6)

Allied Signal submitted:

[Regarding polyamide carpet yarns subject to 3 per cent duty under TCO] ... it is difficult to reconcile the stated ambition of the Government that industry be ‘internationally competitive’ in the context of applying duty to one of the primary raw material inputs. (sub. 53, p. 1)

Sarlon Industries said:

... as a manufacturer importing raw material not produced in Australia we now pay an added 3 per cent on our material inputs. (sub. 83, p. 2)

The Stocktake of Progress in Microeconomic Reform (PC 1996), found that the changes to the TCS amount to a tax on imported inputs for which there are unlikely to be domestically available substitutes.

Going for Growth - Business Programs for Investment, Innovation and Export (the Mortimer Review) considered the schemes currently available for import duty rebates. The Review found them complex and confusing for business, and that there was merit in consolidating them all into a general Import Duty Rebate Scheme (Mortimer 1997, p. 171).

6.3 Effective assistance

As discussed above, at the aggregated industry level, effective rates of assistance for these industries remain significantly higher than those for the manufacturing sector generally. Within TCF industries, higher levels of assistance to the finished goods end of the market mean that, in general, these activities have been encouraged over others, though in some cases input suppliers are dependent on the assistance given to their customers.

At a more disaggregated level, protection can still vary substantially between
close production and consumption substitutes. This feature was greater in the past, when general assistance levels were higher. For example, variable levels of assistance on yarn production (largely due to different rates of bounty assistance) meant that effective rates of assistance on yarns varied between 18 and 93 per cent in 1986 (IAC 1986b). Around this time, the TCF Advisory Committee noted that production of yarns had shifted to those attracting higher bounty rates (cited in IAC 1986b).

In 1997, there remain significant variations in assistance within the TCF sector. The example referred to earlier regarding the duty-free entry of silk fabrics has a significant effect on assistance. The average effective rate of assistance for clothing is estimated to be around 47 per cent in 1996-97. If the major input (fabric) is duty-free, however, this increases to more than 70 per cent at current tariff levels. The impact of the policy by-law system is particularly significant in this regard.

Effective rates of assistance will continue to decline between now and 2000, in line with the scheduled tariff reductions. In 2000, the average effective rate of assistance for textiles will be 17 per cent, and 34 per cent for clothing and footwear. Within the clothing sector, effective rates are estimated to range between 23 per cent and 64 per cent.

6.3.1 The effect of the policy by-law system

The major source of disparities in assistance for close substitutes is now the policy by-law system. Its effect on the assistance structure is more complex, and is likely to influence production decisions in both competing industries, and in upstream and downstream industries.

Competing commodities

Local production of goods competing with imports under by-law is likely to be discouraged, and local industry is also likely to be discouraged from commencing production in a by-law competing area. For existing or potential producers, the protective impact of the tariff is effectively removed. For example, at current rates of duty, the effective rate of assistance on fabrics not competing with imports under by-law is estimated to be around 60 per cent. In the case of a fabric competing with by-law imports, the effective rate of assistance is negative as there is no protection on output.

Not surprisingly, domestic production of the latter category of commodities has been limited, and the clothing industry has relied largely on duty-free imported fabrics. The TFIA submitted that the by-laws were used “extensively”
throughout the clothing industry, and more than 80 per cent of fabrics used by much of the clothing sector were imported, most of them duty-free under by-law (sub. 66).

User industries

Relatively high tariffs on the output of user industries, together with the availability of duty-free inputs, means that their assistance levels are considerably higher than they otherwise would be. This encourages and supports production in the labour-intensive areas where the local industry is least competitive.

While the impact on assistance has declined as tariffs have come down, at current tariff rates (and those which will prevail in 2000), it is still significant. The importance of this concession to clothing manufacturers is illustrated by Gloweave’s comment in hearings that the only time it ever pays duty on fabric is by accident:

The only time we ever pay tariff is if fabric has arrived and it is overweight, and that is accidental ... (trans., p. 251)

The effect on assistance is greater in some user industries than others, depending on the degree of value added in the activity. In the case of bed sheeting (which has the same tariff on output as finished apparel), the relatively lower value-added component implies that the impact on assistance is greater. At current rates of duty, the effective rate of assistance on some bed linen manufacture is estimated to be around 60 per cent. If the major inputs are duty-free, the effective rate of assistance exceeds 100 per cent.

Participants described other arbitrary effects of the by-law system. Domestic Textile Corporation described the situation of the printing by-law which used to allow duty-free import of fabrics for printing, regardless of end use. In the late 1980s, the by-law was modified to allow duty-free import of fabric for printing for use in clothing, but not for use in sheeting:

In the late 1980s ... [the by-law was withdrawn] ... I lost about $6 million of catalogue business to New Zealand who import their fabrics duty-free. (sub. 14, p. 1)

Hunter Douglas said that the policy by-laws may have had an adverse effect on their business:

Anecdotal evidence suggests that the cause of a significant loss in business on woven fabric sales for blinds by Hunter Douglas is the policy by-law (sub. 248, p. 4)

At the time of the 1986 IAC Inquiry into these industries, participants indicated
that the weight limits applied on fabrics imported under by-law were responsible for changes in the markets of user industries. Some fabric producers indicated that the weight limits were too high and restricted their potential range of production and markets. In contrast, some fabric users felt the weight limits were too low and their competitiveness suffered as a consequence. In both cases, production decisions were distorted. One specific example given related to furniture, where it was argued that the by-laws had led to greater use of lightweight fabrics in furniture production, at the expense of more highly assisted fabrics above the weight limit (IAC 1986).

**Other industries**

The TFIA submitted that the policy by-law system was a key part of the assistance framework which needed to be maintained:

> The TCF policy by-law system is an integral element of the current sectoral tariff arrangements ... [and] must be maintained into the next decades. ... These by-laws are used extensively throughout the clothing industry, especially in the fashion, womenswear and shirting sectors. (sub. 66, p. 23)

In seeking to assist clothing manufacturers, however, the by-law system has had a serious impact on the development not only of the domestic textiles industry, but also of industries further back along the production chain.

With some exceptions — heavy cottons and denim are examples — Australian fibre and fabric makers have been isolated, in effect, from the clothing sector. Many clothing manufacturers have had duty-free access to overseas suppliers of fabrics, and have not looked for a domestic supply base.

Parts of the clothing sector therefore have had significantly higher levels of assistance than other clothing manufacturers, based on the choice of fabric inputs. Domestic fibre and fabric manufacturers have had significantly less assistance than is apparent from looking at the applicable tariffs. This is particularly significant in view of Australia’s international competitiveness in many areas of fibre production (see Chapter 1).

This issue was well illustrated by Charles Parsons:

> [Of] the 38 cotton producing countries in the world, Australia ranks in the bottom 3 in terms of the volume that is value added to the spinning stage (7 per cent) ... the figure for wool is even worse ... 3 per cent. (sub. 67, p. 2)

As noted by the TFIA (sub. 66), policy by-laws represent a key element of the existing assistance regime. The current structure of the industry reflects these assistance arrangements.

It is likely that the policy by-law system has contributed to the maintenance of a
labour-intensive clothing industry, larger than it would otherwise be, which is heavily reliant on imported inputs. The by-law system may have also been a factor which has inhibited the development of upstream industries (such as cotton, yarns and textiles) where Australia has less of a disadvantage in production.

6.4 Overseas Assembly Provisions Program

The Australian tariff contains a number of provisions which allow concessional entry of re-imported goods. The TCF Overseas Assembly Provision (OAP) Program extends this concession to cover some Australian TCF components used in assembly overseas, and re-imported as part of a further processed article. The Australian content is allowed concessional entry.

Similar schemes with general (that is, not sector-specific) application have been used in several countries for many years — for example, in the US and EU. Conceptual issues regarding the treatment of the component of imports produced domestically go beyond the TCF industries and beyond the scope of this Inquiry. However, to the extent that the customs (that is, value for duty) valuation of imports does not recognise the domestic content (the re-import), the tariff represents a tax on that part of domestic production (see Lloyd 1994). In so far as the tariff is designed to assist Australian production, it does not appear logical to levy it on that part of the value of a product which originated in Australia, as well as that part which originated abroad.

In theory, an OAP could be applied to imported goods containing any domestic content. These could include raw materials, intermediates, intellectual property and freight. In practice, issues concerning origin and measurement mean that it can be difficult to establish the value of the domestic content of imported products. The difficulties of identifying the exported component in imports has meant that the types of eligible processes have been limited to assembly operations.

6.4.1 US and EU schemes

In the US, there is a general item in the tariff schedule which allows products assembled abroad from US products to be re-imported with duty being paid only
on the offshore value added. However, to be eligible for the concession, the US component must be:

- exported in condition ready for assembly without further fabrication;
- not lose physical identity; and
- not be advanced in value or improved in condition except by being assembled and except by operations incidental to the assembly process (such as cleaning or lubricating).

There was also a special item in the US tariff schedule which related only to textile and apparel goods assembled in Mexico from fabrics formed in the US (Subheading 9802.00.90). The major difference was that under this provision the whole article, not just the US content, was duty-free. The special item also allowed certain operations ‘incidental’ to the process of assembly, such as acid-washing. With respect to Mexico, this tariff item has been superseded by the free trade provisions of the North American Free Trade Agreement (NAFTA) (see Chapter 2).

An arrangement also operates in the EU, known as the Outward Processing Trade (OPT), under EU legislation. There are two main elements. The first is ‘fiscal OPT’ which covers all types of goods re-imported after processing abroad and duty is payable only on the value added abroad. The second is ‘economic OPT’, which refers only to TCF and allows for preferential tariff quotas on the re-imports (UN 1995).

TCF imports under OPT have increased significantly over the past 5 years (see Table 6.7). Of the EU countries, Germany has made the most use of OPT. Relatively high labour costs in Germany, and historical, cultural and language ties with many parts of Eastern Europe have been offered as explanations (see Newbery and Davies 1993).

Table 6.7: OPT trade between EU and Eastern Europe (tonnes)

<table>
<thead>
<tr>
<th></th>
<th>1990 ('000)</th>
<th>1991 ('000)</th>
<th>1992 ('000)</th>
<th>1993 ('000)</th>
<th>1994 ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPT clothing imports to the EU</td>
<td>64.9</td>
<td>84.6</td>
<td>91.6</td>
<td>122.1</td>
<td>151.3</td>
</tr>
</tbody>
</table>

Source: Rigby 1995

In the context of an escalated tariff structure, OAPs can reduce the disparities in assistance between stages in production. That is, assistance to the final stages

---

7 Sub-chapter II, ‘Articles exported and returned, advanced or improved abroad’, subheading 9802.00.80
of production is reduced under an OAP while assistance to earlier stages is increased. OAPs also can be seen as an indirect form of export incentive insofar as they provide an incentive for the purchase and export of Australian intermediate goods, albeit only as inputs for goods imported to Australia.

The attractiveness of OAPs will depend on the extent of any net savings under the scheme as compared with importing foreign goods without Australian content and the costs of establishing and measuring Australian content. OAPs would tend to increase assistance to producers of intermediate goods, subject to the structure of input markets. Clothing producers abroad have an incentive to use more Australian made fabrics (and therefore yarns) and to pay more for them. The impact on relative assistance levels depends on the extent to which fabric and yarn producers are able to benefit from the increased demand abroad.

It is also clear that, in the context of falling (and converging) tariffs, the significance of the issue declines, as do the size of any benefits under a sector-specific OAP program.

### 6.4.2 TCF OAP Program

The TCF OAP Program is the only scheme of its kind in Australia. It was established on 1 March 1993 for a trial period of three years. Despite relatively low levels of participation, the program was extended to 2000 in the TCF 2000 Development Strategy.

The TCF OAP allows firms to assemble clothing overseas from cut fabric made in Australia, and then import the finished product to Australia free of duty on the Australian content. At least 85 per cent of the fabric used in the finished garment must be made in Australia. The offshore content (the cost of assembly) attracts duty at the normal rate. The dutiable component is calculated therefore as the difference between the outbound value of the fabric, and the inbound value for duty. The scheme is available only to clothing manufacturers. Other TCF products (such as textiles and shoes) are excluded.

The stated aims of the program include:

- to encourage firms to focus on higher value-adding activities (like design); and

---

8 Goods exported under the OAP scheme cannot earn credits under the Import Credit Scheme.
to encourage firms to invest in value-adding capital equipment, and expand employment in more highly skilled aspects of clothing manufacture. (TCFDA 1994b)

The major eligibility requirement is that (clothing) firms are able to demonstrate “long term strategic significance to the local Australian TCF industries”. The decision on eligibility is made by the Minister, following a recommendation from the TCF Unit of the Department of Industry, Science and Tourism (DIST).

Australian content is calculated as the sum of the:

- cost of fabric produced in Australia;
- cost of imported fabric up to a maximum of 15 per cent of the Australian fabric (although DIST may approve imported value up to 25 per cent);
- adjustment allowance of 10 per cent of total cost of fabrics;
- cost of trim and accessories supplied from Australia; and
- cost of transportation from Australia to the overseas factory.  

To be eligible, firms must submit detailed information regarding their company — including structure, sales breakdown and overall financial status. In addition, detail on the proposed use of domestic fabric is required, as well as estimated costs of overseas assembly. Applicants are required also to submit an employee impact statement (jointly agreed between management, employees, and unions) describing the likely effects of the scheme on their workforce.

Processes other than assembly are generally excluded from the scheme. Only shapes cut in Australia may be used and these must not lose their physical identity in the finished product. Processes such as printing, dyeing and stonewashing occurring offshore after assembly make the goods ineligible for the OAP.

Factors affecting use of the TCF OAP

While the level of activity under the scheme is still relatively small given the size of the TCF sector, imports have been growing (see Table 6.8).

The OAP Program has been applied to both underwear and outerwear (see Table 6.9). Underwear has become a more significant area of use of the Program since 1992-93.

---

Firms are permitted to export uncut rolls of fabric to be used for replacement pieces where pieces already cut are found to be defective. This may be up to 5 per cent of the amount of total cut fabric exported.
Table 6.8: Value of imports under the OAP Program, 1992-93 to 1995-96 ($1994-95)

<table>
<thead>
<tr>
<th>Year</th>
<th>Duty-free ($m)</th>
<th>Dutiable ($m)</th>
<th>Estimated duty forgone ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>0.7</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>1993-94</td>
<td>9.9</td>
<td>2.9</td>
<td>4.5</td>
</tr>
<tr>
<td>1994-95</td>
<td>12.5</td>
<td>4.0</td>
<td>5.4</td>
</tr>
<tr>
<td>1995-96</td>
<td>22.4</td>
<td>6.4</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Note: Assuming that all imports under the program are assembled garments, duty forgone has been estimated as the value of duty-free imports multiplied by the applicable general tariff rate applying to clothing.

Source: ABS 1997e

Only four countries have featured — China, Philippines, Vietnam and Indonesia. China has accounted for more than 90 per cent (by value) of all imports under the Program since its inception.

Only seven firms have used the OAP Program, with a large proportion of imports accounted for by Pacific Brands. The small number of firms using the Program has resulted probably from specific aspects of its design and administration, as well as other external factors (see below).

Table 6.9: Type of imports under the TCF OAP Program as a proportion of total Program imports, 1992-93 to 1995-96

<table>
<thead>
<tr>
<th>Description</th>
<th>1992-93 (%)</th>
<th>1993-94 (%)</th>
<th>1994-95 (%)</th>
<th>1995-96 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men’s/boys’ shirts: knitted or crocheted</td>
<td>15</td>
<td>26</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>Men’s/boys’ underpants, briefs, pyjamas bathrobes etc: knitted or crocheted</td>
<td>16</td>
<td>31</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Women’s/girls’ underpants, briefs, pyjamas, bathrobes etc: knitted or crocheted</td>
<td>-</td>
<td>9</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Pullovers, cardigans, waist coats etc: knitted or crocheted</td>
<td>-</td>
<td>-</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Babies’ clothes and clothing accessories: knitted or crocheted</td>
<td>48</td>
<td>20</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Bras, girdles, corsets, braces, suspenders etc</td>
<td>15</td>
<td>14</td>
<td>36</td>
<td>31</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>1</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: ABS 1997e

First, the design of the Program is restrictive in terms of what constitutes an
eligible product and an eligible process. Sport Fashions indicated that the OAP Program in its current form was not attractive, given the boundaries on eligible work done offshore. For this reason Sport Fashions thought it likely that only integrated operations would find it attractive:

... vertical organisations that have their own spinning, their own knitting, dyeing and finishing and cutting ... [it may] work very well for them but it does not work for people like Sport Fashions. It’s very difficult to get a manufacturer in China, for example, who’s prepared to simply sew for you and under the OAP of course we have to cut in Australia and send it offshore. (trans., p. 80)

Similarly, Sara Lee and Bradmill indicated that the Program was unlikely to be attractive to manufacturers requiring some degree of post-assembly processing. Bradmill said:

... the requirement of the current arrangements for laundering back in Australia really kills off the advantage for a jeans-maker, in that to send cut fabric to an offshore location just for the sewing, then bring it back and have the laundry which is again quite labour-intensive and then the pressing and the ticketing and the packing and all these other labour-intensive processes that follow back here in Australia, just kills it. (trans., p. 388)

Sara Lee argued that these restrictions built in a bias away from woven fabrics in clothing, as these required treatment post-assembly and that the cost of washing, pressing, and ticketing back in Australia was equivalent to the total manufacturing cost in China (trans., p.158).

Second, the lack of certainty at the time of introduction regarding the Program’s future might not have provided sufficient encouragement for companies to invest in plants offshore. Overseas experience (albeit with general OAPs) suggests there may be scope for expansion over a longer period (see IAC 1984a).

Third, there is scope for obtaining wider duty-free entry (subject to rules of origin) under trade agreements. For example, in 1995-96, more than 70 per cent of Australia’s $90 million of TCF exports to Fiji were fabrics, while nearly 85 per cent of the $130 million of TCF imports from Fiji were clothing and footwear. These issues are discussed further in Chapter 9.

Fourth, as discussed above, there is a low reliance on Australian textiles by the Australian clothing industry, due to significant quantities of duty-free imports under by-law. The requirement that 85 per cent of the fabric be locally made immediately excludes most domestic clothing manufacturers. It is likely to be most attractive to manufacturers using fabrics in which Australia is likely to be internationally competitive.

This highlights the conflicting incentives under two arms of Government policy.
The OAP Program seeks to encourage domestic production and use of fabrics, while the policy by-law system has the opposite effect on domestic production, by providing duty-free entry to imported fabrics.

The Textiles, Clothing and Footwear Development Authority (TCFDA) commissioned a review of the OAP Program in 1995 (DTT 1995). This review found that other factors affecting the attractiveness of the Program to firms included:

- the overwhelming cost competitiveness of places like China which meant that, even with the OAP Program, it was sometimes cheaper to import assembled clothing and pay the duty; and
- the difficulty reported by firms in finding factories offshore prepared to do only the assembly, due in part to the low margins on this activity alone.

**The future of the TCF OAP Program**

The OAP Program in its current form is due to lapse in 2000.

Some participants were strongly supportive of the Program. The Victorian Government thought that it was important for the local industry:

> The Overseas Assembly Provisions (OAP) are, and will continue to be an important policy tool for promoting specialisation, value adding and a global orientation ... (sub. 152, p. 6)

Pacific Brands and the ACM were also supportive. Pacific Brands submitted:

> ... we have utilised the Government’s positive development program designed to encourage firms to adapt and survive during this period of ever increasing import pressure. In our experience ... all 3 key programs of the TCFDA development strategy have encouraged us to make long-term investments and to develop characteristics we would not otherwise have undertaken ... [in the case of the OAP] maximising “Australianness” under the Overseas Assembly Provisions scheme in what would otherwise be fully imported product. (sub. 44, p. 3)

The ACM recommended that:

> ... the Overseas Assembly Provisions continue and they are extended to encompass all textiles, clothing and footwear manufacturing in Australia. (sub. 87, p. 15)

The Footwear Manufacturers’ Association of Australia (FMAA) indicated that the OAP Program would not have a significant impact on the footwear industry (sub. 186). However, Diana Ferrari, a footwear manufacturer, indicated that the inclusion of leather (as outlined in the Commission’s recommendations — see Chapter 11) could make the OAP Program a more attractive proposition (DR trans., p. 279).
Others indicated support for extension of the OAP Program as outlined in the report commissioned by the TCFDA — namely, the Australian Business Chamber (sub. 141); CDA (sub. 59); and the TFIA (sub. 66). However, the TFIA also submitted that even an expanded Program would not be used by many industry participants.

The ACM’s survey of TCF firms found that while only 8 per cent of its members used the scheme, around 60 per cent supported its continuation (sub. 87, p. 15).

The major amendment proposed in the TCFDA report was that the whole of the completed article be imported duty-free. As discussed in Chapter 11, the Commission sees no economic rationale for such a scheme.

It would appear that, in relation to the scheme’s objectives, with the exception of Pacific Brands, the OAP Program in its present form has been an ineffective means of promoting activity in higher value-added activities like design, and in rationalising other more labour-intensive activities. However, other participants indicated that the existence of the ICS may have meant that the OAP Program was not used (Diana Ferrari, DR trans., p. 279).

The Commission’s recommendations for an expanded OAP Program are discussed in Chapter 11.

6.5 Summary

- Throughout the 1970s and much of the 1980s, government assistance to TCF industries increased while assistance to the rest of the manufacturing sector (with the exception of the steel and automotive industries) declined.
- The major sources of protection for TCF industries throughout the 1980s were quotas and bounties. Quotas encouraged production of basic products and insulated local manufacturers from signals regarding their international competitiveness. As a consequence, even high levels of tariff protection did not provide the level of certainty provided by quotas.
- The policy reforms of the past decade have reduced and simplified substantially the protection afforded to TCF manufacturers. In 2000, effective rates of assistance will average between 17 per cent for textiles, and 33 per cent for clothing and footwear.
- Tariffs are now the major form of protection. The tariff structure applying to TCF industries follows a relatively simple escalated structure. By 2000, there will be only 3 tariff rates plus the general rate. Despite relatively high tariffs, the overall level of actual duty paid is low, mainly because of
various forms of concessional entry.

- Although the tariff structure is relatively simple, the level of assistance within the sector varies significantly due to some anomalies in the tariff and concessional entry arrangements. As such, close production and consumption substitutes may attract different levels of effective assistance.

- Policy by-laws are the major source of duty-free entry of TCF goods. These by-laws have had a significant effect on industry structure. Local clothing manufacturers have been encouraged to use imported fabrics and local production of commodities competing with imports under by-law has been discouraged.

- The OAP Program is a very limited measure designed to promote involvement of Australian firms in higher value-adding activities and assist in the rationalisation of labour-intensive processes such as assembly.

- Use of the OAP Program has been limited, although it has increased in recent times. This limited use is related to the uncertainty surrounding the Program’s lifespan and factors related to its design.
7 TRADE BARRIERS IN OTHER COUNTRIES

Other countries’ TCF trade barriers have been cited frequently during this inquiry. It has been argued that the corruption of world TCF trade is so extensive that Australia’s industries cannot and indeed should not be expected to compete without assistance. It is contended that high barriers in developed countries such as the US and EU make Australia the target for imports from developing countries, particularly China. Furthermore, high tariffs and other market impediments are said to make the development of export markets difficult for Australian producers. While agreements are in place to reduce TCF trade barriers through both the World Trade Organisation (WTO) and the Asia Pacific Economic Cooperation (APEC) Forum by 2005 and 2010/2020 respectively, it is alleged also that some developed countries are circumventing these agreements and increasing trade barriers in the meantime. Participants have argued that Australia should adopt a ‘wait and see’ approach to further tariff reductions because it is suggested that there is a high probability that the scheduled liberalisation will not occur.

This chapter explores these issues. It traces the evolution of quantitative restrictions under the Multifibre Arrangements (MFA), outlines the program for their elimination under the WTO Agreement on Textiles and Clothing (ATC), examines their economic effects, including their effects on Australia, and assesses the reform program. It then reviews the tariff barriers facing Australian exporters in major trading partners. The chapter concludes with a discussion of a number of other factors affecting Australia’s market access for TCF products.

7.1 Textile and Clothing Quotas

Textiles and clothing — along with agricultural products — have been notable exceptions to continuing trade liberalisation around the globe in the past fifty years. Developed countries have reduced their trade barriers substantially for most manufactured goods. However, they have attempted to protect their textile and clothing industries against increasing competition from developing countries with an array of quantitative restrictions as well as tariffs.

These quantitative restrictions, rather than tariffs, constitute the major distortion to global trade in textiles and clothing. These restrictions do not affect Australia’s exports and imports directly, but they do have indirect effects: by reducing the derived demand for some Australian products, by enhancing the
demand for others and by possibly increasing the supply of some imports to Australia. In the case of Australia’s exports, tariffs rather than quantitative restrictions are the principal market access barrier.

The Uruguay Round of trade negotiations recognised that individual industry sectors could not be considered in isolation, that protection for any sector, whether in manufacturing, agriculture or services, had adverse effects on the rest of the economy. As a result, as part of a range of multi-sectoral agreements under the Uruguay Round, trade in textiles and clothing is being liberalised progressively under a program which will run until 1 January 2005.

7.1.1 The Multi-Fibre Arrangements

Quantitative restrictions under the MFA\(^1\) have had a profound effect in restricting exports of textiles and clothing from developing to developed countries. In contrast to the global quotas which Australia had in place from 1975 to 1993, the quantitative restrictions imposed under the MFA by the US, Canada and the EU were country-specific and confined to developing countries in the form of ‘voluntary’ export restraints.

In the 1950s, the US was faced with declining international competitiveness of its textile and clothing industries at the same time as Japan had reconstructed its industries after World War II. As a result, the US negotiated restraints on exports of cotton textiles from Japan. In 1961, a short-term Cotton Textiles Agreement was negotiated between a number of developed importing and developing exporting countries; this was transformed into a long-term Cotton Textiles Agreement in the following year. The coverage of products and countries was expanded further in 1974 in the first of a series of MFAs.

The MFAs provided a framework which outlined the processes for imposing quantitative restrictions on textile and clothing exports from developing countries to developed countries. These (product and country-specific) quantitative restrictions were implemented by means of a complex set of bilateral restraints on developing countries’ exports to developed countries.\(^2\)

Each revision of the MFA resulted in further extension of product and country coverage of the restraints. Products added included wool, man-made fibres, all

\(^1\) There have been four versions of the MFA. The first MFA, which came into force on 1 January 1974 for a period of four years (MFA-I), was extended in 1977 for a further period of four years (MFA-II). It was extended again in 1982 (MFA-III) and 1986 (MFA-IV).

\(^2\) If agreement could not be reached bilaterally, unilateral restraints could be imposed.
vegetable fibres and silk blends (Hoekman and Kostecki 1995, p. 207). As textile and clothing industries emerged in newly developing countries, exports from these countries were added to the restricted list.

In 1994, its last year, the MFA covered eight importing countries, with the EU counted as one country (Hoekman and Kostecki 1995, p. 207). Among these countries, the US, the EU, Canada and Norway applied restrictions, while Japan, Switzerland, Austria and Finland did not.\(^3\) It should be noted that the claim made by many participants that Australia is the only developed country without quotas on imports is incorrect.

In the early 1990s, the US accounted for more than 57 per cent of imports by MFA importers. When combined with the EU, this percentage rose to 90 per cent (Yang 1994).\(^4\) Estimates based on 1990 data indicate that, excluding intra-EU trade, approximately 15 per cent of world trade in textiles and 44 per cent in clothing was subject to restraint under MFA agreements (GATT 1994b, p. 16). These figures on actual trade under restriction underestimate the effects of the MFA, because of the effects of the restraints themselves and because the mere threat of quantitative restrictions would have discouraged potential trade which otherwise might have occurred.

In 1994, a total of 37 economies (8 importing economies and 29 exporting economies) were signatories to MFA-IV. Most of the exporting economies were still developing economies, although these included the newly industrialised economies of Hong Kong, Korea and Singapore.

In 1993, the US had restraint agreements with 42 economies (including some non-MFA members) and in 1992 it obtained 87 per cent of its textile and apparel imports (by quantity) from MFA signatories. Of these economies, the leading suppliers were China, Taiwan, Hong Kong and Korea, which together accounted for 35 per cent of US textile and apparel imports (GATT 1994a).

In 1993, the top three suppliers of textiles (by quantity) to the EU from MFA signatories were India, Pakistan and China, which together accounted for 27 per cent of imports. For clothing the top three suppliers were China, Turkey and Hong Kong, collectively accounting for 32 per cent of imports (Khanna 1994).

\(^3\) Austria, Sweden and Finland are now members of the EU and are embraced by restrictions on exports to the EU.

\(^4\) Hoekman and Kostecki 1995 (p. 207) make the further point that, as textiles account for 45 per cent of total OECD imports from developing countries, the MFA has been a cornerstone in the institutional framework for North–South trade.
By the early 1990s, the US had established 147 categories for the purpose of setting restraint levels under bilateral agreements on US textile and apparel imports (GATT 1994a). The number of categories under restraint varied between exporting countries, from as many as 141 of the possible 147 for large suppliers, to as few as one category for new suppliers.

### 7.1.2 Agreement to phase out quotas

The significance of the MFAs in restricting world trade was recognised during the Uruguay Round of trade negotiations. Cross-sector negotiations took place during the Uruguay Round in which textiles and clothing — and agriculture — were no longer considered in isolation. Developing country support for WTO agreements on intellectual property and trade in services was made contingent upon developed country support for the ATC (Hoekman and Kostecki 1995, p. 209). This agreement is explained in more detail in Appendix F.

The MFAs covered quantitative restrictions on exports (that is, export quotas) only and not tariffs. Under the terms of the ATC, the existing provisions of the MFA were carried over to apply from 1 January 1995, but subject to a phase-out schedule, whereby all quantitative restrictions on textiles and clothing exports from members of the WTO are to cease on 1 January 2005. The ATC provides for the gradual integration of textiles and clothing into the mainstream of WTO processes. Integration was to be achieved by the phase-out of quantitative restrictions in four stages over ten years. The four stages were to take effect from 1 January in the years 1995, 1998, 2002 and 2005, at which time the quantitative restrictions are to be terminated. At the start of each stage, importing countries must integrate a specified minimum proportion of their textile and apparel imports. Under each MFA, quotas for products under restraint were increased annually. The ATC lays down a new ‘growth-on-growth’ formula which increases these existing annual growth rates (see Appendix F for details).

For importing countries, the effects of phased integration will depend on a number of factors:

- the degree to which the products covered by the ATC are subject to binding quota restraint to begin with (not all products covered by the ATC were subject to existing MFA quotas);

---

5 The term ‘integration’ means returning to the situation where, in a trade policy sense, textiles and clothing are no longer treated as an exception under specially negotiated rules, as was the case with the MFA, but are subject to the full force of WTO rules. In particular, textiles and clothing will not be subject to quantitative restrictions.
• the use of 1990 as the year on which volumes agreed for integration at the various deadlines are based;
• the quota growth-on-growth rate formula under the ATC;
• the existing or MFA quota growth rates for those products which were under restraint as at 30 December 1994 (that is, the base growth rates to which the new growth-on-growth formula is applied); and
• the timing and the products selected for integration at the various integration deadlines.

This last factor is particularly important, as integration of the most sensitive, quota-restricted products has been delayed until the final stage of integration on 1 January 2005.

Both the US and the EU integrated relatively low value and less sensitive items in the first stage from 1 January 1995. The 16 per cent by volume of 1990 imports integrated from that date, as specified in the ATC, covered only an estimated 7 per cent of the value of US imports and 9 per cent of the value of EU imports (Martin 1996, p. 14). The choice of products for integration was biased away from ‘sensitive’ products, so that in the first integration phase, the US and EU integrated no products which were already subject to actual MFA quota restrictions. A similar approach has been adopted by the US and EU in their announced second stage integration to take place from 1 January 1998.\(^6\) Only in the third stage of the US plan (from 1 January 2002 or seven years after commencement of the ATC) will a significant number of quota-restricted categories be integrated (Martin 1996, p. 14).

Both the US and the EU have backloaded integration of apparel products to the later stages (see Appendix F for details). It is apparel products where quotas are most restricting and where the adjustment consequences of integration will generally be greatest.

### 7.1.3 The special cases of China and Taiwan

Any discussion of world trade and quotas for TCF products should give special recognition to the importance of China as the world’s leading clothing and footwear supplier. China and Taiwan have faced import quota restrictions

---

\(^6\) Parties to the ATC are required to announce their integration plans at each of the four stages at least 12 months prior to each implementation date. The US has already announced its plans for all four stages up until 1 January 2005. However, the EU has reserved its rights under the agreement and has not yet announced its third and fourth stage plans which are to take effect from 1 January 2002 and 1 January 2005, respectively.
imposed by the US and the EU under the MFA. However, China and Taiwan are not yet members of the WTO and therefore will not benefit from the phase-out of bilateral MFA import quotas according to the schedule established under the ATC. Further, China and Taiwan are being disadvantaged currently by their exclusion from the quota growth provisions operating under the ATC.

China is a large exporter of TCF products to the US and the EU. Accordingly, there has been speculation that the US and the EU will insist that, as part of China’s ticket of admission to the WTO, some form of special quota controls will be retained on their TCF imports from China (Smeets 1995; Pacific Brands, sub. 136, Attachment 2). If special quotas for China were to eventuate, the adjustment pressure on the domestic TCF industries in the US and the EU would be reduced, and the abolition by 2005 of quantitative restrictions for countries other than China would be made easier.

The prospect of special US quotas on imports from China has arisen recently in the context of a four year bilateral agreement between the US and China concerning trade in textiles and clothing. Although the agreement, which was signed early in 1997, is due to expire on 31 December 2000, it contains the unusual feature of safeguard provisions which, depending on the conditions of China’s accession to the WTO, have the potential to operate until 2009. In the context of ongoing negotiations concerning China’s accession to the WTO, the status of these provisions and the likelihood of their coming to fruition is unclear at this stage.

### 7.1.4 Economic effects of quotas

For more than three decades now, numerous studies have argued that the MFAs have had a major effect in restricting world trade in textiles and apparel. Inquiry participants correctly identified it as one of the most corrupted areas of world trade.

The fact is, as noted in the 1995 Report of the Future Strategies Review Committee, TCF trade is the most corrupted of all trade in manufactured goods. (TFIA, sub. 66)

This corruption of world trade was presented by a number of participants as a reason for Australia not proceeding with unilateral tariff reductions.

---

7 Hong Kong is a member and has continued its membership since unification with China.

8 In 1994, the US imported $US 1.1 billion of textiles (12 per cent of US textiles imports) from China and $US 6.7 billion of clothing (17 per cent of US clothing imports).
Most quantitative studies of the MFA have focused on the effects of MFA quotas on developed countries, in terms of their effects on welfare, employment and trade volumes. For example, in 1993, the US International Trade Commission (USITC) used a general equilibrium model to simulate the effects of removing quotas and tariffs on US imports of textiles and apparel. The USITC estimated that liberalisation of all US quotas on textiles and apparel would result in an annual economic welfare gain to the US economy of up to $US 10 billion, with a further annual gain of $US 1 billion from tariff elimination. The same study showed the associated effects of liberalisation as being equal to job losses of 57 000 (mainly in the apparel sector) or about 3.5 per cent of employment in the US TCF industries. Annual import volumes were estimated to rise by $US 8 billion (21 per cent) for apparel and $US 0.6 billion (19 per cent) for broadwoven fabrics (USITC 1995).

For developing countries, some studies have argued that the net effect of the MFA depends on whether quota rent transfers can compensate fully for the income losses resulting from the reduction in export volumes due to quotas (Yang 1994, Cable 1990). For an established exporting economy such as Hong Kong, the quota premium earned in excess of the export value of its products may be such that it would lose from the phase-out of MFA quotas; it could lose market share to lower cost suppliers as well as losing quota rent. For this reason, there is not universal support among exporting countries for the phase-out of the MFA. Nonetheless, some economists (Trela and Whalley 1990) have concluded that almost all developing countries have suffered from the MFA.

There is some debate about how restrictive the MFA has been. Imports from some countries have grown by considerably more than the 6 per cent per annum allowed under the MFA, leading to doubts as to whether MFA quotas really were binding. There has been some ‘porosity’ in the practical ability of MFA quotas to restrain imports to the growth rates intended by the MFA-importing countries (Finger and Harrison 1994). Notwithstanding the success or failure of MFA quotas in restraining imports to particular levels, it is clear from the employment figures in Table 2.5 that, as production has continued to shift to Asia, quotas have not been able to prevent a continuing decline in TCF employment among the world’s major developed countries.

9 Quota rents accrue to exporting (mainly developing) countries as they share in the higher prices in importing countries brought about by the restrictions.

10 Trela and Whalley (1990) note that successful exporters, such as Hong Kong, Korea and Taiwan, have consistently shown growth rates of textile and clothing exports to quota-restricted countries considerably in excess of their quota growth allowed under the MFA. They attribute this to entrepreneurial skill in circumventing quota restrictions.
Quantitative restrictions under the MFA have been circumvented by a number of practices, including transhipment and falsification of country of origin documentation.

The United States Trade Representative (USTR) also recently announced the formation of an interagency task force to address “the growing problem of circumvention of textile and apparel agreements”. Transhipment, which in practice consists of labelling the goods to confer origin to another country whose quota is not full, is illegal under the country-specific quota system of the MFA. According to the USTR, over $2 billion of imports from China are being transhipped into the United States, “preventing US workers from competing on fair terms with other countries”. (GATT 1994a, p. 167)

Global trade analysis models have been used to estimate the impact of the planned phase-out of MFA quotas. For example, using 1986 data and assuming instantaneous adjustment, Yang estimated that as a result of quota abolition, exports from MFA exporters as a group to MFA importers, would increase from their 1986 levels by 26 per cent for clothing and 10 per cent for textiles (Yang 1994, Table 3).

Inquiry participants provided examples of MFA quotas having indirect effects on Australian companies operating overseas. The Stafford Group established a clothing plant in China to supply the US market, but was unable to obtain a sufficiently large allocation of MFA quota from the Chinese with which to supply Stafford’s outlets in the US. Pacific Brands reported similar difficulties in exporting from its factories in China — it was unable to obtain enough quota for its export of socks and other products from China to Europe and North America (trans., p. 113).

7.2 Effects on Australia

Although Australia was a signatory of MFA–I, it did not sign any of the extensions. This has been attributed to the failure of the MFA to achieve a significant reduction in the flow of textiles and clothing imports entering Australia in 1973-74 and the fact that the MFA was having an adverse effect on Australia’s relations with some Asian countries (IAC 1986, pp. I.34–35). Global quotas were imposed unilaterally by Australia early in 1975 and remained in place until March 1993.

Australia has not been a signatory to the MFA since the mid-1970s. While no Australian exports are restricted directly under the quantitative restrictions of the MFA (now carried over into the WTO ATC), they are restricted indirectly. For example, exports of Australian wool to Korea, which are subsequently incorporated into textiles, are restricted indirectly by the restraints on exports
from Korea to the US. The indirect effect of the MFA on the demand for Australian wool is discussed below.

7.2.1 Australian exports not restricted by quotas

Quantitative restrictions under the MFA have been directed at restricting exports to developed countries by developing countries and accordingly they have not been directed against Australia. The Industry Commission is unaware of any substantial quantitative restrictions affecting Australia directly, although non-MFA, import quotas on footwear destined for the Japanese market have been mentioned by the TFIA (sub. 66).

Compared with many other exporting countries, Australia faces no substantial quantitative barriers on its access to the EU or the US. This means that Australian TCF exporters have an advantage over countries which do face such restrictions. Australian exporters have a window of opportunity to establish export markets in MFA-importing countries before these markets are opened up to more vigorous competition in 2005 — though the products most affected by these restraints are not products in which Australia has a comparative advantage.

7.2.2 Effect of quotas on the flow of imports to Australia

A number of participants stated that restrictions on exports from many developing countries to the US and EU led to exports being re-directed to Australia.

Because we are the only western country that has totally removed quotas, overseas suppliers who have exhausted their quotas to other countries often lower their prices below cost to export excess garments to quota free Australia.
(Gloweave, sub. 27, p. 1)

If other countries were lowering their prices below cost as alleged by Gloweave, it is likely that there would be grounds for taking anti-dumping action under the established procedures. (See Chapter 6 for a discussion of dumping.)

If I could add something on that MFA situation. Of course we’re not subject to the quotas but what happens is that the countries like India and China, who have overstepped their quota into the MFA countries, find Australia a very useful dumping ground. I don’t mean dumping in the customs sense....

They run out of quota at the peak of their markets in the northern hemisphere and that’s when the southern hemisphere markets open up. You’ll find that the traditional winter imports coming here coincide with the times that they reach their quota limits. (Australian Wool Processors Council, trans., p. 451)
The major importing countries produce running totals of the extent of quota utilisation for each quota category within any given quota year. They do this so that, among other things, exporting countries can judge how close they are to filling their quota entitlement. This could result in a seasonal increase in imports as countries like India and China divert additional exports to Australia but the Industry Commission can see no case for policy intervention in this.

The models reviewed above have concluded that MFA quotas have had large trade-restricting effects. However, these studies refer to the restrictive effect of quotas on global trade as a whole (or the US in the case of the USITC study), not the effect on Australia. Indeed, Australia is not a sufficiently large player in world textile and clothing markets for the effects on Australia to be identified separately in such studies. The TFIA provided information alleging that, as a reflection of trade diversion, China in particular has achieved substantially greater import penetration in Australia than in other major importing countries.

The outcome of Australia leading the rest of the world in opening up its market to TCF imports is highlighted by it being the world’s largest importer per capita of TCF products from China.

In 1995, the major importers of clothing from China were:

<table>
<thead>
<tr>
<th>Country</th>
<th>US $ Total Imports ex China</th>
<th>US $ per capita imports ex China</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>2.3 billion</td>
<td>9</td>
</tr>
<tr>
<td>Australia</td>
<td>697 million</td>
<td>39</td>
</tr>
<tr>
<td>Germany</td>
<td>685 million</td>
<td>8</td>
</tr>
<tr>
<td>S Korea</td>
<td>458 million</td>
<td>11</td>
</tr>
</tbody>
</table>

Australia’s relative clothing imports from China are the highest of all countries by far, despite Australia’s small size. It is significant that in absolute terms Australia imports 30 per cent of the US total from China, and this is reflected in the per capita figures above which show Australia’s market is four times as open as the rest of the world on a relative basis. (TFIA, sub. 66)

Unfortunately, the TFIA did not cite the source of the figures above, although they were subsequently repeated by a number of other participants. However, upon checking by the Commission, most of the figures used by the TFIA (and other participants) could not be substantiated. For example, available WTO data shows that Japan, not Australia, is ‘the world’s largest importer per capita

---

11 The relevant data are reported by the WTO in Table IV.57 of *International Trade; Trends and Statistics*, WTO, Geneva, 1995.
of TCF products from China\textsuperscript{12}, that US clothing imports from China were $US 6.2 billion in 1995 not $US 2.3 billion, and that Australian imports are equal to 11 per cent of those by the US not ‘30 per cent of the [US] total from China’ as suggested by the TFIA. This is not to say that trade diversion does not occur but that its extent has been exaggerated by the TFIA and other participants in this inquiry.

The per capita import figures for 1995 (the year used by the TFIA) have been reproduced in Table 7.1 below (using the sources listed) to provide a contrast with those produced by the TFIA from unknown sources. (The Commission was unable to obtain figures for clothing imports from China by Germany and South Korea.)

Table 7.1 Clothing imports from China, selected countries, 1995

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Imports from China ($US)</th>
<th>Per capita imports from China ($US)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>6.2 billion</td>
<td>24</td>
</tr>
<tr>
<td>Australia\textsuperscript{a}</td>
<td>765 million</td>
<td>45</td>
</tr>
<tr>
<td>EU\textsuperscript{b}</td>
<td>5.7 billion</td>
<td>23</td>
</tr>
<tr>
<td>Japan</td>
<td>10.6 billion</td>
<td>85</td>
</tr>
</tbody>
</table>

\textsuperscript{a} Australian import data refer to the 1995-96 financial year as obtained from ABS 1997d. Data for other countries refer to calendar 1995.

\textsuperscript{b} Statistics affected by changes in EU membership and method of collecting trade data in the EU. This figure refers to members of the expanded EU(15) for the 1994 year.


7.2.3 The effect on wool

Australia produces a relatively high proportion of the world’s apparel wool. The world market for raw wool is relatively free of trade restrictions. Tariffs on early-stage processed wool are generally low — on wool tops, the tariff is 2 per cent in the EU, 5 per cent plus 6.6 cents per kg in the US and 15 per cent in China (see Table 7.7). However, because textiles and clothing exports from developing countries face major trade barriers in the form of quotas, Australian

\textsuperscript{12} Japan’s consumption was $US 84 per capita or more than twice that of Australia. (This calculation is based on WTO data as per footnote 10, which shows that in 1995 Japan imported $US 10.6 billion of clothing from China and uses a population for Japan in 1995 of 126 million people.)
exports of wool are restrained indirectly as explained below by the Australian Wool Council (sub. 157, pp. 17-19).

Tariffs and quotas have the effect of corrupting the market for Australian raw wool exports by adding to the cost of a finished product. High retail costs decreases consumer demand, which in turn has a negative impact upon the demand for wool fibre and wool fibre products throughout the global wool pipeline ...

For example, wool apparel from both China and India are subject to quotas in the US and EU. If such trade restrictions were not imposed upon these exporting countries, their demand for Australian raw wool would undoubtedly rise....

The Uruguay Round decision to phase out the Multi Fibre Arrangement (MFA) by [the end of] 2004 will mean the gradual elimination of the bilateral quotas that have restrained the textiles and clothing trade. This should deliver benefits to [many] developing countries whose exports in this sector have been constrained by restrictive quotas in the major markets of the EU and the US. In turn, this should stimulate demand for Australian wool, including processed wool, particularly in developing countries manufacturing woollen textiles and clothing.

Using 1987 data and assuming instantaneous adjustment, an Australian study by Leu estimated that removal of US and EU quotas would have increased total woollen apparel imports from their 1987 levels by 11.3 per cent for the US and 5 per cent for the EU (Leu 1991). Using elasticities reported in the US literature, Leu estimated that these additional imports would have caused the average import prices of woollen apparel to fall by 11.7 per cent in the US and 5.9 per cent in the EU, and that the volume of woollen apparel imported by the US and the EU would have increased by 15 per cent and 10 per cent respectively. He estimated that, in 1987-88 prices, this increase in demand would have benefited Australian wool producers by $125 million per annum, while the consequential higher import prices for woollen clothing would have cost Australian consumers $15.6 million per annum.

In its submission to this inquiry, the Wool Council of Australia argued for the removal of Australia’s tariffs on imported woollen garments, fabric and yarn (sub. 157). The Council argued that high levels of tariff protection in Australia on these items were an impediment to Australia’s trade negotiators in achieving reductions in the tariffs imposed by other countries on our wool.
Finding

Australia’s wool exports are restrained indirectly by quotas established under the MFA; for this reason alone it is in Australia’s interests to see these quantitative restrictions phased out.

**Recommendation**

The Australian Government should monitor implementation of the WTO Agreement on Textiles and Clothing and encourage the phase-out of quantitative restrictions according to the agreed timetable.

**7.2.4 Continuing trade liberalisation**

During this Inquiry there has been considerable debate about the course of TCF trade liberalisation, much of which appears to have been based on misinformation. For example, participants have expressed concern that quotas will not be abolished until the end of 2004 and have suggested that other countries rather than liberalising, have been introducing new arrangements after the Uruguay Round which are becoming more restrictive. Such claims were made for example by the TFIA:

...it has become apparent that meaningful liberalisation of the MFA type quotas will not take place before 2005. Quite the reverse has occurred with arrangements becoming more restrictive post Uruguay Round.

For instance, the UK added another 8 quota categories to its bilateral quota arrangements and the US quite deliberately and systematically cut its quota levels for Chinese textile and clothing imports by 25%, introduced strengthened “trans-shipment” rules and altered its rule of origin to restrict access to its market.  
(TFIA, sub. 66, p. 20)

While elements of the quotation above are factually correct, the Industry Commission rejects the suggestion that arrangements are becoming more restrictive since the Uruguay Round. The Textiles Monitoring Body (TMB) is the organisation charged by the WTO with reporting on implementation of the ATC. In its latest report, released on 31 July 1997, the TMB concludes that, apart from some minor administrative problems, the ATC is being implemented almost exactly as intended (TMB, 1997). Further, none of the specific issues raised by the TFIA above are inconsistent with the ATC, as explained below.

In relation to the alleged eight new UK quota categories, the TMB specifically addressed the issue of new restrictive measures introduced by WTO members in its latest report. Article 3.3 of the ATC requires members to notify the TMB of
any new or altered restriction. More importantly, Article 3.4 allows for reverse notifications, whereby any member can bring to the attention of the TMB any new or altered restriction which a member is aggrieved by and which the TMB is empowered to pursue under the relevant GATT 1994 provisions. In its latest report covering reverse notifications for the period 1 January 1995 to 24 July 1997, the TMB reported that ‘No notification was made explicitly under this provision’ (TMB 1997, para 244).

In relation to the alleged 25 per cent cut in US quotas on imports from China, the latter country is not a member of the WTO and therefore the US action is not covered by the ATC. The cut in quota is understood to have been motivated by US concerns about $US 2 billion of goods allegedly transhipped by China through third countries and the consequent falsification of origin (see Section 7.1 above), which the US claims has been used as a strategy to circumvent US quota restrictions. With such large-scale alleged circumvention of quotas by the Chinese, the US action could be seen (by the US) as restoring the status quo before this alleged falsification of origin commenced.

In relation to rules of origin changes, which took effect from 1 July 1996 and apply only to textiles and clothing, these have been motivated, at least in part, by a US desire to ensure that products whose content is largely of Chinese origin, are not entering the US through backdoors. The Inquiry has been advised that Sheridan Australia has been affected by these rule changes in relation to its export of sheets to the US (see Chapter 6 for details). The Sheridan sheets, which contain Chinese fabric but are printed in Australia, will now be classified as Chinese rather than Australian in origin and hence subject to US import quotas.

Rules of origin are a blunt instrument and sometimes have unintended consequences. For example, US sheet manufacturers are presumably now prevented from ascribing local origin to sheets which are printed in the US by US sheet manufacturers using Chinese fabric — fabric which will now fall within the US quota on Chinese fabric imports. The net effect on market opportunities for competing suppliers is not at all clear. Further, the WTO is currently in the midst of developing new internationally agreed rules of origin destined to apply to all WTO members (see Chapter 6 for details), which means that these particular US rule changes must be regarded as interim measures only.

A number of countries have requested consultations with the US on its changed rules of origin. According to the TMB:

On rules of origin, Members requesting consultations under Article 4 [of the ATC] were required to show that there had been a change in the implementation of the restrictions and if that was the case, that they had been adversely affected.
or trade disrupted. In a number of consultations with various members it could be established that the implementation of restrictions on some of the trade had in fact not changed. In other cases, where change could be demonstrated, the United States was working toward a mutually satisfactory solution. (TMB 1997, para 261)

Apart from Sheridan, no other Australian company has used this Inquiry as an opportunity to articulate any particular difficulties being experienced as a result of the US change in rules of origin.

There is nothing to suggest that the developed countries do not retain a strong commitment to liberalisation. There has been criticism by some countries of the actions taken by the US under the safeguards provisions of the ATC, for example. However, as pointed out by the TMB in its report, the US has merely been exercising its rights under the ATC. The US Individual Action Plan submitted at the APEC Ministerial Meeting in November 1996 indicated that it was on schedule to liberalise its tariff and non-tariff barriers on TCF products (see Section 7.4).

The TMB also noted the view that ‘Benefits given to certain Members in the ATC were trade-offs for the obligations these Members had undertaken in other Agreements’ (TMB, 1997, para 296). Because of the significance of intellectual property and trade in services to the developed countries, they have a cross-sector, vested interest in compliance with the ATC. Indeed it could be argued that as developed country economies mature, their newer industries, which rely upon agreements on intellectual property and freer trade in services, will be more important than their more traditional and declining TCF sectors. In this context, the developed economies will be most anxious to retain developing country support by honouring their commitments to phase out quotas under the ATC.

Further, the Uruguay Round was a great success in the pursuit of trade liberalisation. Tariff reductions equal to 40 per cent overall on manufactured goods were agreed (GATT 1994b, Table II.3). Tariff reductions on TCF products were also agreed and are discussed in more detail later in this chapter. With these developments in mind and the incentives for developed countries to honour their commitments under the ATC, it should not be assumed that the phase out of restrictions scheduled for 1 January 2005 will not occur.

Australia has been a strong advocate of international trade liberalisation and the demonstration effects of its unilateral tariff reductions should not be underestimated. TCF products have not previously been prominent in Australia’s trade negotiations. However, for many years Australia has used its unilateral tariff reductions for manufacturing generally, to argue its case for
better access for Australia’s agricultural exports. Through its leadership of the Cairns Group of nations when they were advocating agricultural trade liberalisation, Australia had a major impact — first, in getting agriculture on to the Uruguay Round agenda and, second, in achieving a major new agreement on agricultural trade liberalisation. During the Uruguay Round there was a realisation that if Australia was to play an influential role in what was emerging as a multi-pronged approach to trade liberalisation, there needed to be concordance between its domestic policies and this broader agenda. It is in this context that a pause now in TCF tariff reductions, could seriously undermine Australia’s broader trade liberalisation interests within the WTO.

7.3 Tariffs as barriers to global trade in TCF

There is a perception among some participants that tariffs in our major trading partners are higher than they are in Australia, and that they constitute a substantial barrier to Australian companies gaining export markets.

7.3.1 Tariffs in developed countries

There are several sources of information on levels of tariffs used around the world. Reconciliation of the sources has not always been possible. This report relies primarily on a database of tariff levels maintained by the Department of Foreign Affairs and Trade (DFAT), although reference is made to other sources also.

Tariffs averaged over a number of commodities can be measured either as a simple average or as a trade-weighted average. Unlike the trade-weighted average, the simple average takes no account of the trade volumes involved and is just the average of the applied tariff rates on all of the relevant tariff lines (some of which may be zero). Tariff averages can sometimes be calculated as an average of thousands of items and unfortunately it is not always clear whether these zero rates have been included in the averaging process. Also, there is a distribution of tariff rates around the simple average or mean and this distribution can be skewed. A further complication is that some commodities are subject to specific rate tariffs which are expressed as a dollar amount — say, $2 per item. Tariffs may even be levied as a combination of a specific rate and an ad valorem rate.  

In these latter cases it is usual to ignore specific rates in the calculation of tariff averages.

13 An ad valorem tariff rate is expressed as a percentage of the value for duty purposes of the item being imported.
While trade-weighted averages appear to have an advantage in that they take into account the trade volume in each category, they can be very misleading. This is because high tariffs will lead to small import volumes and thus will have low ‘weights’ in the average.

Although simple averages can differ significantly from trade-weighted averages, one or other is sometimes all that is reported. Another complication is that some sources use particular Harmonised Schedule (HS) classifications to define product categories when reporting average tariff rates, whereas others use International Standard Industrial Classification (ISIC) categories which encompass a different set of HS lines. Finally, some sources fail to distinguish between bound and applied tariff rates (see Section 7.3.2). For all of these reasons, a broad approach needs to be taken, rather than relying upon limited data from which to draw conclusions about comparative tariff levels. With these data limitations in mind, this section reports the data which are available for the US, EU and a selection of developing countries.

In 1996, imports of textiles by the US bore a simple average (not trade-weighted) applied tariff of 11.4 per cent, while for clothing the average was 11.5 per cent. The corresponding figure for footwear was 16.4 per cent (WTO 1996b, Table IV.1).

Another source, the US Individual Action Plan (IAP) produced for APEC and presented at the APEC Ministerial Conference held in Manila in November 1996, reported a 1996 simple average (unweighted) applied tariff for textiles and clothing combined, of 12.5 per cent, and a trade-weighted average for the same grouping of 14.1 per cent (APEC 1996). The difference between these APEC figures and the simple (unweighted) applied averages of 11.4 per cent for textiles and 11.5 per cent for clothing reported above by the WTO Secretariat confirms the need for caution in making comparisons.

More detailed US textile and clothing applied tariff rate data obtained from DFAT for the relevant Tariff Chapters (showing simple average, maximum and minimum values) is provided in Table 7.2. While the distribution of tariffs around the simple average is unknown, it is apparent from the table that the maximum values are generally well in excess of the simple average figures. The two exceptions are Tariff Chapters 54 (man-made filaments) and 55 (man-made staple fibres), where the maximum rates for both chapters are

---

14 These averages were based on 1996 ad valorem rates and 1995 ad valorem equivalents for specific rate and compound rate tariff items.

15 The data in Table 3.2 were obtained by the Industry Commission from the Statistical Analysis and Retrieval Service (STARS) tariff database maintained by DFAT.
16.6 per cent, which is only 3.5 per cent above the simple average rate of 12.1 per cent for chapter 54, and 4.5 per cent above the 13.1 per cent simple average rate for Tariff Chapter 55.

**Table 7.2:**  US applied tariffs\(^a\) on TCF imports, 1996

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Chapter Description</th>
<th>Maximum (%)</th>
<th>Minimum (%)</th>
<th>Simple Average (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>Raw hides, skins and leather</td>
<td>5.0</td>
<td>0.0</td>
<td>2.6</td>
</tr>
<tr>
<td>42</td>
<td>Articles of leather</td>
<td>20.0</td>
<td>0.0</td>
<td>8.6</td>
</tr>
<tr>
<td>43</td>
<td>Furskins and artificial fur</td>
<td>9.2</td>
<td>0.0</td>
<td>2.6</td>
</tr>
<tr>
<td>50</td>
<td>Silk</td>
<td>7.0</td>
<td>0.0</td>
<td>3.5</td>
</tr>
<tr>
<td>51</td>
<td>Wool, fine or coarse animal hair</td>
<td>33.9</td>
<td>0.0</td>
<td>6.5</td>
</tr>
<tr>
<td>52</td>
<td>Cotton</td>
<td>29.7</td>
<td>0.0</td>
<td>10.1</td>
</tr>
<tr>
<td>53</td>
<td>Other vegetable textile fibres</td>
<td>22.9</td>
<td>0.0</td>
<td>3.8</td>
</tr>
<tr>
<td>54</td>
<td>Man-made filaments</td>
<td>16.6</td>
<td>0.0</td>
<td>12.1</td>
</tr>
<tr>
<td>55</td>
<td>Man-made staple fibres</td>
<td>16.6</td>
<td>0.0</td>
<td>13.1</td>
</tr>
<tr>
<td>56</td>
<td>Wadding, felt and non-wovens</td>
<td>15.6</td>
<td>0.0</td>
<td>8.4</td>
</tr>
<tr>
<td>57</td>
<td>Carpets and other textile floor coverings</td>
<td>9.6</td>
<td>0.0</td>
<td>5.5</td>
</tr>
<tr>
<td>58</td>
<td>Special woven fabrics</td>
<td>29.7</td>
<td>0.0</td>
<td>10.4</td>
</tr>
<tr>
<td>59</td>
<td>Impregnated, coated, or laminated textile fabrics</td>
<td>15.6</td>
<td>0.0</td>
<td>5.9</td>
</tr>
<tr>
<td>60</td>
<td>Knitted or crocheted fabrics</td>
<td>20.5</td>
<td>7.2</td>
<td>12.6</td>
</tr>
<tr>
<td>61</td>
<td>Articles of apparel and clothing accessories, knitted or crocheted</td>
<td>34.1</td>
<td>0.0</td>
<td>14.6</td>
</tr>
<tr>
<td>62</td>
<td>Articles of apparel and clothing, not knitted or crocheted</td>
<td>30.0</td>
<td>0.0</td>
<td>12.0</td>
</tr>
<tr>
<td>63</td>
<td>Other made up textile articles</td>
<td>23.2</td>
<td>0.0</td>
<td>9.2</td>
</tr>
<tr>
<td>64</td>
<td>Footwear(^b)</td>
<td>48.0(^c)</td>
<td>0.0</td>
<td>15.7</td>
</tr>
</tbody>
</table>

\(^a\) All rates cited are those which are levied on an *ad valorem* basis and do not include any specific rate tariffs which, although less common, apply to some commodities.

\(^b\) Includes sport shoes.

\(^c\) US tariffs on footwear are expressed typically as *ad valorem* rates which vary according to the value of the tariff item concerned. The 48 per cent maximum tariff rate refers to Harmonised Schedule (HS) item 6401.91.60, defined as footwear covering the ankle but with a unit value of less than US$ 3.00 per pair. This particular item is somewhat atypical, in that the *ad valorem* rate is significantly higher than the rates for other items of footwear in Chapter 64 of the US Tariff.

Source: DFAT, unpublished information.

In 1996, maximum tariff levels applying in the EU were lower than those in the US for fifteen of the eighteen tariff chapters reported (see Tables 7.2 and 7.3).
Some participants claimed that tariffs on the products of major interest to Australia are much higher in Australia’s major trading partners than in Australia. As shown in Table 7.7, which covers a cross-section of Australia’s TCF exports, this does not appear to be the case, particularly for exports to the EU and the US. In 1996, the EU had no clothing and textile tariff above 13.4 per cent, while the Australian tariffs for clothing and textiles are to be 25 per cent and 15 per cent, respectively, in 2000. However, the average of Australia’s applied tariffs is lower than this because some products come in under concessional entry (see Chapter 6 for details).

Table 7.3: EU applied tariffs\(^a\) on TCF imports, 1996

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Chapter Description</th>
<th>Maximum (%)</th>
<th>Minimum (%)</th>
<th>Simple Average (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>Raw hides, skins and leather</td>
<td>6.7 0.0</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Articles of leather</td>
<td>10.6 2.7</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Furskins and artificial fur</td>
<td>4.6 0.0</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Silk</td>
<td>7.5 0.0</td>
<td>5.2</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Wool, fine or coarse animal hair</td>
<td>14.3 0.0</td>
<td>6.8</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>Cotton</td>
<td>9.4 0.0</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>Other vegetable textile fibres</td>
<td>12.2 0.0</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>Man-made filaments</td>
<td>10.1 3.8</td>
<td>8.3</td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>Man-made staple fibres</td>
<td>10.1 6.1</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>Wadding, felt and non-wovens</td>
<td>12.0 3.2</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>Carpets and other textile floor coverings</td>
<td>12.2 5.3</td>
<td>9.4</td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>Special woven fabrics</td>
<td>12.9 5.0</td>
<td>9.3</td>
<td></td>
</tr>
<tr>
<td>59</td>
<td>Impregnated, coated, or laminated textile fabrics</td>
<td>12.2 4.4</td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>Knitted or crocheted fabrics</td>
<td>10.8 6.5</td>
<td>10.6</td>
<td></td>
</tr>
<tr>
<td>61</td>
<td>Articles of apparel and clothing accessories, knitted or crocheted</td>
<td>13.4 8.0</td>
<td>12.7</td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>Articles of apparel and clothing, not knitted or crocheted</td>
<td>13.4 6.3</td>
<td>12.8</td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>Other made-up textile articles</td>
<td>13.4 0.0</td>
<td>10.5</td>
<td></td>
</tr>
<tr>
<td>64</td>
<td>Footwear(^b)</td>
<td>18.2 3.6</td>
<td>10.4</td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) All rates cited are those which are levied on an *ad valorem* basis and do not include any specific rate tariffs which, although less common, apply to some commodities.

\(^b\) Includes sports shoes.

*Source:* DFAT, unpublished information.
7.3.2 Bound tariff reductions agreed for TCF

A distinction needs to be made between applied and bound tariff rates. The term ‘tariff binding’ refers to the rate above which a country will not increase its tariff for a particular tariff item — committing itself in negotiations not to increase the tariff above a specific level, except by negotiation with affected trading partners.\(^{16}\) If a tariff is bound at a level above the currently applied tariff rate, lowering the bound rate will not necessarily result in more liberal trade, although it does reduce the possible extent of tariff increases. Reductions in bound rates to levels below currently applied rates do liberalise trade.

Reductions in bound tariffs agreed as part of the Uruguay Round of GATT negotiations are to be implemented in five equal steps. The reductions commenced on 1 January 1995 and will conclude on 1 January 1999.

Textile and clothing tariffs in developed countries are generally higher than for industrial products overall. Prior to the Uruguay Round, the developed country trade-weighted average bound tariff on textiles and clothing was 15.5 per cent, compared with only 6.3 per cent for industrial products overall. After the Uruguay Round reductions are implemented, it is estimated that the corresponding figures will be 12.1 per cent and 3.8 per cent (GATT 1994b, Table II.3).

As a result of the Uruguay Round, the proportion of tariff lines bound for industrial products is estimated to increase from 78 per cent to 99 per cent for developed countries, and from 21 per cent to 73 per cent for developing countries (GATT 1994b, Table II.11). For the textiles and clothing category, it is estimated that only 4 per cent of tariff lines will be bound duty-free, compared with 17 per cent for industrial products overall (GATT 1994b, Appendix Table 1).

Among the developed countries, the US undertook during the Uruguay Round to reduce its average bound tariffs on textiles and clothing by 13 per cent over the implementation period (WTO 1996b, p. 129). A 13 per cent reduction by the US on the 1996 bound tariff levels reported by the WTO Secretariat would result in a simple average applied tariff by the year 2000 of about 10 per cent for both textiles and clothing. This is broadly consistent with the projected 10.9 per cent simple average applied tariff by 2000 which was contained in the IAP presented by the US at the 1996 APEC Ministerial Meeting in Manila (APEC 1996, Vol. II, p. 1-12). The same document projected a trade-weighted

---

\(^{16}\) Bindings can apply to many countries if they are agreed as part of multilateral negotiations, or they can have much more limited application if negotiated in the context of trade preference agreements.
applied tariff reduction for textiles and clothing from 14.1 per cent in 1996 to 13.8 per cent by the year 2000.

Like the US, the EU has agreed to reduce its tariffs over the latter half of the 1990s (see Table 7.4).

Table 7.4: Selected EU applied tariffs, 1995 and 2000 (projections)

<table>
<thead>
<tr>
<th>ISICCode</th>
<th>Product Description</th>
<th>Average&lt;sup&gt;a&lt;/sup&gt; (%)</th>
<th>Range (%)</th>
<th>Average&lt;sup&gt;a&lt;/sup&gt; (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>321</td>
<td>Textiles</td>
<td>9.8</td>
<td>0.0 to 25.0</td>
<td>7.4</td>
</tr>
<tr>
<td>322</td>
<td>Manufacture of wearing apparel</td>
<td>12.4</td>
<td>0.0 to 14.0</td>
<td>10.6</td>
</tr>
<tr>
<td>323</td>
<td>Leather products</td>
<td>4.7</td>
<td>0.0 to 12.0</td>
<td>3.2</td>
</tr>
<tr>
<td>324</td>
<td>Manufacture of footwear</td>
<td>8.4</td>
<td>4.6 to 20.0</td>
<td>7.4</td>
</tr>
</tbody>
</table>

<sup>a</sup> Simple average

Source: WTO 1995b

Under Australia’s Uruguay Round commitments, its bound tariff rates for all bound rate TCF items, and for all years from 1995 to 2000 inclusive, are higher than Australia’s maximum applied rates. (See Chapter 6 for these maximum applied rates and Appendix G, Table G1 for some product-specific examples of bound and applied rates.) The bound rate schedule shows that very few of Australia’s TCF lines are bound at zero and, where they are, there is usually no domestic production.

7.3.3 Tariffs in developing countries

Participants have referred to high tariffs in developing countries such as Malaysia, Indonesia and China. Maximum tariffs for these countries (see Table 7.5), are often higher than those reported earlier in the chapter for the US and the EU.

Tariffs in developing countries are coming down as a result of both their Uruguay Round commitments and more recent unilateral tariff initiatives. In July 1997, Indonesia, for example, announced that, as part of an economic reform package, it was undertaking an economy-wide program of unilateral tariff reductions (including TCF). This will go some way toward achieving Indonesia’s APEC free trade commitment. The tariff rates shown in Table 7.5 indicate that following these reductions in Indonesia (of about 5 per cent) no TCF tariffs will be greater than 25 per cent in that country. This compares favourably with Australia, where tariffs on apparel, for example, are now
considerably higher than those in Indonesia (see Chapter 6 for Australia’s tariff levels). For Hong Kong and Singapore the tariffs are zero. In China, on the other hand, TCF tariffs typically are higher than those in Australia.

Table 7.5: Selected country tariffs on TCF imports, 1996, minimum and maximum rates

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Chapter Description</th>
<th>Japan (%)</th>
<th>Korea (%)</th>
<th>Malaysia (%)</th>
<th>Indonesia (%)</th>
<th>China (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>Raw hides, skins and leather</td>
<td>0–60</td>
<td>3–8</td>
<td>0–10</td>
<td>0–10</td>
<td>7–25</td>
</tr>
<tr>
<td>42</td>
<td>Articles of leather</td>
<td>3.2–40</td>
<td>8–8</td>
<td>0–25</td>
<td>5–25</td>
<td>20–45</td>
</tr>
<tr>
<td>43</td>
<td>Furskins and artificial fur</td>
<td>0–20</td>
<td>3–8</td>
<td>0–0</td>
<td>5–25</td>
<td>30–50</td>
</tr>
<tr>
<td>50</td>
<td>Silk</td>
<td>0–20</td>
<td>2–8</td>
<td>0–20</td>
<td>0–20</td>
<td>6–30</td>
</tr>
<tr>
<td>51</td>
<td>Wool, fine or coarse animal hair</td>
<td>0–9.6</td>
<td>2–8</td>
<td>0–0</td>
<td>5–20</td>
<td>9–35</td>
</tr>
<tr>
<td>52</td>
<td>Cotton</td>
<td>0–11.2</td>
<td>2–8</td>
<td>0–20</td>
<td>0–25</td>
<td>12–25</td>
</tr>
<tr>
<td>53</td>
<td>Other vegetable textile fibres</td>
<td>0–16</td>
<td>2–8</td>
<td>0–0</td>
<td>0–20</td>
<td>6–23</td>
</tr>
<tr>
<td>54</td>
<td>Man-made filaments</td>
<td>4–16</td>
<td>8–8</td>
<td>0–20</td>
<td>5–20</td>
<td>18–45</td>
</tr>
<tr>
<td>55</td>
<td>Man-made staple fibres</td>
<td>0–16</td>
<td>2–8</td>
<td>0–20</td>
<td>0–20</td>
<td>12–42</td>
</tr>
<tr>
<td>56</td>
<td>Wadding, felt and non-wovens</td>
<td>0–9.1</td>
<td>8–8</td>
<td>0–30</td>
<td>0–25</td>
<td>20–40</td>
</tr>
<tr>
<td>57</td>
<td>Carpets and other textile floor coverings</td>
<td>0–13.4</td>
<td>8–8</td>
<td>0–35</td>
<td>10–25</td>
<td>30–40</td>
</tr>
<tr>
<td>58</td>
<td>Special woven fabrics</td>
<td>0–17.9</td>
<td>8–8</td>
<td>0–40</td>
<td>5–25</td>
<td>30–40</td>
</tr>
<tr>
<td>59</td>
<td>Impregnated, coated, or laminated textile fabrics</td>
<td>3.8–8</td>
<td>8–8</td>
<td>0–30</td>
<td>0–20</td>
<td>20–40</td>
</tr>
<tr>
<td>60</td>
<td>Knitted or crocheted fabrics</td>
<td>0–15.7</td>
<td>8–8</td>
<td>20–20</td>
<td>15–20</td>
<td>30–40</td>
</tr>
<tr>
<td>61</td>
<td>Articles of apparel and clothing accessories, knitted or crocheted</td>
<td>5.6–16.8</td>
<td>8–8</td>
<td>20–20</td>
<td>20–25</td>
<td>30–45</td>
</tr>
<tr>
<td>62</td>
<td>Articles of apparel and clothing, not knitted or crocheted</td>
<td>5.3–16</td>
<td>8–8</td>
<td>0–30</td>
<td>5–25</td>
<td>34–45</td>
</tr>
<tr>
<td>63</td>
<td>Other made up textile articles</td>
<td>0–16.8</td>
<td>8–8</td>
<td>0–30</td>
<td>5–25</td>
<td>25–45</td>
</tr>
<tr>
<td>64</td>
<td>Footwear</td>
<td>4.2–60</td>
<td>8–8</td>
<td>0–30</td>
<td>10–25</td>
<td>40–60</td>
</tr>
</tbody>
</table>

Note: Rates shown for Indonesia reflect a tariff reduction initiative in that country in July 1997.

Source: DFAT, unpublished information.

Tariffs frequently increase with the degree of processing — this is known as tariff ‘escalation’ where, for example, tariffs on raw hides and cotton are lower than for finished leather and cotton yarn respectively. Similarly, the countries listed in Table 7.5 have relatively high minimum tariffs of between 20 per cent and 34 per cent for Tariff Chapters 61 and 62, because these chapters contain apparel items which involve a relatively high degree of processing. Most current Australian exports to Japan, Korea, Malaysia, Indonesia and China are
Table 7.6  Australia’s majora TCF exports to selected countries, 1995-96

<table>
<thead>
<tr>
<th>AHECC Codeb</th>
<th>Commodity Description</th>
<th>Japan ($m)</th>
<th>Korea ($m)</th>
<th>Malaysia ($m)</th>
<th>Indonesia ($m)</th>
<th>China ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4101</td>
<td>Raw hides and skins of equine animals</td>
<td>18.6</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>4102</td>
<td>Raw skins of sheep or lambs</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>31.2</td>
</tr>
<tr>
<td>4104</td>
<td>Leather</td>
<td>--</td>
<td>23.5</td>
<td>--</td>
<td>--</td>
<td>10.8</td>
</tr>
<tr>
<td>5101</td>
<td>Wool not carded or combed</td>
<td>244.2</td>
<td>167.3</td>
<td>115.3c</td>
<td>--</td>
<td>501.8</td>
</tr>
<tr>
<td>5105</td>
<td>Wool carded or combed</td>
<td>71.5</td>
<td>85.6</td>
<td>--</td>
<td>15.9</td>
<td>162.3</td>
</tr>
<tr>
<td>5201</td>
<td>Cotton not carded or combed</td>
<td>164.7</td>
<td>72.2</td>
<td>18.4</td>
<td>246.9c</td>
<td>46.1</td>
</tr>
</tbody>
</table>

a  Only exports to these countries greater than $A10 million for individual commodities are shown. There were no exports of individual commodities to Singapore greater than $A10 million.
b  Australian Harmonised Export Commodity Classification (AHECC).
c  Australia’s exports of this item enter duty free (DFAT, unpublished information).

Source: Australian Bureau of Statistics, unpublished data.

raw materials or low value added products at an early stage of processing, which are classified under Tariff Chapters 41, 51 and 52 (see Table 7.6). For these products, tariff rates are generally lower (see Table 7.5).

7.3.4 Effect of tariffs on Australia’s exports

Because of the very large number of tariff rates facing Australia’s (and other countries’) exports of TCF, it is not easy to summarise market access conditions. With this data limitation in mind, the approach adopted has been to focus on the maximum and minimum tariff rates faced by Australian exports in a number of its major export markets and to supplement this information with examples of actual tariffs borne by commodities which Australia exports in significant quantities (see Table 7.7). In 1995-96, the overseas countries in Table 7.7 accounted for about 58 per cent of Australia’s TCF exports. In the same year, New Zealand purchased about 6 per cent of Australia’s TCF exports; there was no tariff on these exports.

Finding

Tariffs, not quotas, are the major restraint on Australia’s access to overseas markets. Tariffs are falling and reductions agreed to by other countries as part of the Uruguay Round will improve market access for Australia’s TCF exports. Tariff reduction should continue under APEC also.
Finding

It is not correct to claim that tariffs for TCF in Australia’s major trading partners are generally much higher than those in Australia, particularly in the case of exports to the EU and the US. Tariffs applied in some countries are higher than those in Australia.

Recommendation

The Australian Government should press for reduced TCF tariff escalation in future WTO negotiations.

7.4 Other factors affecting Australia’s market access

In addition to tariffs and quotas, the following developments and practices in the international trading environment were identified during the Inquiry as having an effect on Australia’s market access.

7.4.1 The Asia Pacific Economic Cooperation (APEC) forum

Since its inception in 1989, the APEC forum has assumed a significant role in promoting trade facilitation and liberalisation, at the same time as its members have pursued trade barrier reductions under the auspices of the GATT and more recently the WTO. APEC’s status derives partly from the fact that its members account for 40 per cent of world trade (APEC, 1995). APEC countries account for nearly 70 per cent of Australia’s trade (BIE 1995). In 1994, APEC economies accounted for well over half of global TCF trade (IC 1997c).

A significant milestone in APEC’s development was the Bogor Declaration, made by APEC leaders in November 1994. It commits APEC economies to achieving “free and open trade and investment” no later than 2020, with industrialised APEC members to do so by 2010. Australia’s commitment to the Bogor Declaration was confirmed in the White Paper on Australia’s Foreign and Trade Policies, ‘In the National Interest’ released in August 1997.

The Government is committed to meeting the objective of free and open trade and investment by 2010 as set out in the Bogor Declaration. Australia has already reduced tariffs and other barriers more than most APEC member economies. Like every other government, the Australian Government will take account of what other economies are doing in deciding future steps, but its position is a positive one, based on the assessment that liberalisation brings overall benefits to the economy. A priority for the Government will be to ensure that other APEC economies not only keep to the goal of free and open trade and investment by
Table 7.7: Applied tariffs on selected TCF products, 1996

<table>
<thead>
<tr>
<th>AHECCa</th>
<th>Description</th>
<th>Australia</th>
<th>EU</th>
<th>US</th>
<th>Japan</th>
<th>Korea</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>510529</td>
<td>Wool tops</td>
<td>0.0</td>
<td>2.0</td>
<td>5.0b</td>
<td>0.0</td>
<td>2.0</td>
<td>15.0</td>
</tr>
<tr>
<td>510720</td>
<td>Wool yarn</td>
<td>5.0</td>
<td>5.0–10.0</td>
<td>8.4</td>
<td>3.2</td>
<td>8.0</td>
<td>20.0</td>
</tr>
<tr>
<td>520512</td>
<td>Cotton yarn</td>
<td>5.0</td>
<td>5.4</td>
<td>5.2–7.1</td>
<td>2.6–7.8</td>
<td>8.0</td>
<td>12.0</td>
</tr>
<tr>
<td>520942</td>
<td>Cotton fabric</td>
<td>23.0</td>
<td>9.4</td>
<td>8.8</td>
<td>5.2–7.8</td>
<td>8.0</td>
<td>20.0</td>
</tr>
<tr>
<td>551341</td>
<td>Polyester fabric</td>
<td>25.0</td>
<td>10.1</td>
<td>16.6</td>
<td>9.3–11.6</td>
<td>8.0</td>
<td>42.0</td>
</tr>
<tr>
<td>570241</td>
<td>Carpet (wool)</td>
<td>0.0–23.0</td>
<td>8.4</td>
<td>6.4–8.0</td>
<td>11.2</td>
<td>8.0</td>
<td>40.0</td>
</tr>
<tr>
<td>611020</td>
<td>Men’s pullovers</td>
<td>37.0</td>
<td>12.5</td>
<td>5.0–19.9</td>
<td>13.0–15.6</td>
<td>8.0</td>
<td>35.0</td>
</tr>
<tr>
<td>610510</td>
<td>Men’s shirts</td>
<td>37.0</td>
<td>12.5</td>
<td>20.7</td>
<td>10.4–15.6</td>
<td>8.0</td>
<td>40.0</td>
</tr>
<tr>
<td>620433</td>
<td>Women’s jackets</td>
<td>37.0</td>
<td>13.4</td>
<td>3.0–28.7</td>
<td>11.2–16.0</td>
<td>8.0</td>
<td>45.0</td>
</tr>
<tr>
<td>610910</td>
<td>Women’s blouses</td>
<td>37.0</td>
<td>12.5</td>
<td>20.1</td>
<td>10.4–15.6</td>
<td>8.0</td>
<td>35.0</td>
</tr>
<tr>
<td>410422</td>
<td>Wet blue hides (pre-tanned)</td>
<td>0.0</td>
<td>0.0</td>
<td>4.3</td>
<td>0.0–52.5d</td>
<td>5.0</td>
<td>7.0</td>
</tr>
<tr>
<td>430219</td>
<td>Tanned leather</td>
<td>5.0</td>
<td>1.4</td>
<td>1.9–7.0</td>
<td>15.0</td>
<td>5.0</td>
<td>45.0</td>
</tr>
<tr>
<td>640351</td>
<td>Footwear (leather)</td>
<td>27.0</td>
<td>8.0</td>
<td>5.0–10.0e</td>
<td>25.7–52.5d</td>
<td>8.0</td>
<td>60.0</td>
</tr>
</tbody>
</table>

a The first two digits in the Australian Harmonised Export Commodity Classification (AHECC) column correspond with the Tariff Chapter numbers in Table 7.5.
b The tariff on this item is 5 per cent ad valorem plus a specific rate tariff of 6.6 cents per kg.
c Higher US tariffs exist within Chapter 64 of the tariff as explained in note c to Table 7.2 but the rates in this table refer only to particular AHECC items, in this case 640351 with a maximum US tariff rate of 10 per cent. This compares with the Australian tariff rate on this item which, on 1 July 1997, fell from 27 per cent to 24 per cent.
d Japan maintains an import quota for this AHECC item and the tariff rate at the high end of the range refers to the penalty rate for imports exceeding the quota amount.

Source: DFAT, unpublished information.

2010/2020, but that they also deliver substantial trade and investment liberalisation and facilitation along the way. (White Paper, para. 105)

APEC members agreed to the Bogor Declaration because they recognised that supporting an open multilateral trading system encourages the pursuit of comparative advantage and economic specialisation, which in turn enhances economic growth. To provide an open and transparent record of their commitment to this goal, each APEC member is obliged to report annually on initiatives to achieve these goals. These reports are contained in their annual Individual Action Plans (IAPs), the first of which were submitted to the APEC Ministerial Meeting held in Manila in November 1996.

Australia’s IAP outlined the schedule of unilateral TCF tariff reductions which it already had announced through to the year 2000 and noted that a review of post-2000 arrangements was to be undertaken by the Industry Commission.
One measure of the extent of the APEC liberalisation initiatives contained in member country IAPs has been whether they place the country ahead of, or behind, the schedule of WTO liberalisation commitments already agreed to in the Uruguay Round. This measure has been expressed usually in terms of commitments to tariff reductions overall, rather than specific sectoral commitments. Nevertheless, in the case of TCF, some countries have used the APEC forum to reaffirm their commitment to the Uruguay Round reductions in TCF tariffs and phasing out of quotas. For example, the US announced in its November 1996 IAP that its simple average tariff level for textiles and clothing combined would fall from 12.5 per cent in 1996 to 10.9 per cent in 2000, and that the trade-weighted average would fall from 14.1 per cent to 13.8 per cent over the same period. The US also reported that it was on schedule with its Uruguay Round commitment to phase out quotas on textiles and clothing.

7.4.2 Non-tariff barriers affecting trade

A number of participants referred to non-tariff barriers (NTBs) in submissions to the Inquiry. For example, the TFIA referred to the adverse effect of changes to US rules of origin on Australian textile exports (see Chapter 6 for more detail). The TFIA also suggested that piracy of designs and trademarks was undermining the concept of branded merchandise in a number of Asian countries (TFIA, sub. 66). The Carpet Institute of Australia claimed that some NTBs, in the form of distribution arrangements by agents, verge on corruption in some countries:

In many cases it is the non-tariff barrier which adds costs to Australian exports or effectively closes the market. Non-tariff barriers are not well documented (for obvious reasons) and exporters are generally reluctant to speak openly about particular practices which in some cases borders on corruption. ... the accepted practice throughout the [Pacific Rim] area is that importers must deal with ‘agents’ to minimise duty and ensure safe passage of their products at a cost. (sub. 120, pp. 6-12)

The conventional method for monitoring NTBs is to take an inventory approach, drawing on anecdotal evidence and accepting the limitations imposed by their heterogeneous nature and frequent lack of transparency. The only comprehensive global database of NTBs is that maintained by the United Nations Conference for Trade and Development (UNCTAD). The inventory approach adopted by UNCTAD classifies over 100 NTBs, but recognises that it is notoriously difficult to quantify NTBs for purposes of comparison. However, a recent study by the Pacific Economic Cooperation Council (PECC) has
attempted to define and quantify the extent of NTBs within APEC economies systematically (PECC 1995). In the PECC study, NTBs are defined as including quantitative restrictions and a range of other impediments to trade. These other impediments can include such measures as customs procedures and onerous administrative and regulatory compliance requirements. Impediments of this kind restrict trade indirectly but, unlike quantitative restrictions, they have not usually been instituted with that stated purpose. The term ‘trade facilitation’ is used in the PECC report to describe measures designed to overcome these indirect impediments.

APEC has emphasised trade facilitation and the reduction of NTBs in its work program. The Pacific Business Forum (established by APEC Leaders) has made a number of recommendations in areas such as visa requirements for business travellers, harmonisation of customs procedures and standards requirements, and the adoption of greater transparency in administrative and regulatory systems.

Using a broad definition of trade impediments and drawing on a variety of sources, including the UNCTAD tariff and NTB database and responses from a PECC-sponsored survey of NTBs, PECC has used a proxy (defined as the percentage of tariff lines affected by NTBs) to obtain a single measure of NTBs.

A key finding of this research was that the incidence of NTBs among APEC countries in 1993 was higher in the ISIC 2-digit sector, ‘textiles, clothing and leather’, than all other sectors except petroleum and gas. (The textiles, clothing and leather sector also had the highest unweighted average applied tariffs.) For textiles, clothing and leather, the frequency of NTBs in the US and Canada was particularly high because of the quantitative restrictions maintained by these two APEC economies. Using the UNCTAD inventory, the PECC study noted that there had been a downward trend in the incidence of NTBs generally between 1988 and 1993, but the study did not report results separately for textiles, clothing and leather.

**Recommendation**

As part of Australia’s ongoing trade negotiations, the Australian Government should monitor other countries’ non-tariff barriers and support their removal wherever possible.

---

17 PECC comprises representatives from business, government and research bodies from 22 Asia Pacific economies. It works on practical government and business policy issues.
7.4.3 Cotton

Representatives from the Australian cotton spinning industry expressed concern that in Pakistan, India, the US and other cotton-producing countries, governments were depressing raw cotton prices artificially in order to provide cheap inputs to thereby encourage the further processing of cotton in those countries. It was argued that this was putting Australia at a disadvantage compared with the cotton spinning industries in these competing countries.

Government policies that influence raw cotton prices in these countries have had a profound effect on development of both their own and other countries’ spinning industries (including Australia). (Australian Association of Cotton System Spinners, sub. 49, p. 1)

The major problem faced is that presented by countries such as India and Pakistan, which grow their own cotton and have marketing systems which make that cotton available to their domestic spinning industries at prices far below those which apply in the international market. Both countries have large, export oriented spinning industries which pass through the cheaper cotton cost to their yarn prices. This drives down the price of yarn both in Australia and in our export markets. (Rocklea Spinning Mills, sub. 50, p. 7)

Participants indicated that more than 90 per cent of Australia’s cotton crop is exported in unprocessed form, while Australia imports a significant proportion of its cotton yarn requirements. Participants argued that market distortions abroad, aimed at depressing cotton prices, increased price competition from imported cotton yarn and discouraged exporting of Australian-spun cotton yarn.

The relatively small level of processing of Australia’s cotton crop led one participant (Rocklea Spinning Mills, one of Australia’s major cotton spinners) to suggest that there is significant scope to increase the size of the cotton spinning industry, particularly in light of a favourable assessment by Arthur Andersen of its competitive prospects. However, Rocklea suggested that, at the same time, the existing industry was under serious threat.

... the amount of raw material price assistance given to these competitors is more than our total cost of employment, and it is impossible to compete unaided against manufacturers who are subsidised to this degree.

Attention is needed to ensure that such assistance schemes are discontinued by our overseas competitors ... We also need to have some form of bridging program of assistance available to the Australian industry in the meantime, which is sufficient to restore raw material pricing equity with these competitors ...

... the extremely interventionist policies of some of our competitors could wipe out the industry in the interim unless some framework of bridging assistance is provided. (sub. 50, pp. 2 and 7)
The Arthur Andersen study indicated that raw material costs account for over 50 per cent of total costs in the cotton spinning industry (sub. 49, p. 4). During the public hearings for the inquiry, representatives from Rocklea said that although the company was operating at world’s best practice, it was impossible to overcome the raw material buying price advantage enjoyed by their overseas competitors, and that the resulting gap in their competitive position was at present being bridged by receipts under the Import Credit Scheme (ICS).

The Arthur Andersen study reviewed the raw material pricing policies of several major producing countries. It concluded that, while government announcements in these countries might from time to time indicate reduced government involvement in raw cotton marketing and pricing, the administrative machinery nevertheless remained in place to restore interventions which may have been removed temporarily (Australian Association of Cotton System Spinners, sub. 49, p. 2).

In the longer-term context, it seems that unlike Australia, and regardless of the reasons, countries such as Pakistan have been very successful in moving up the value added cotton processing chain. For example, in 1980, the commodity export composition for Pakistan was 14 per cent raw cotton and 19 per cent processed cotton (Riordan and Srinivasan, 1996, Table 4). By 1994-95, the corresponding export figures were 1 per cent as raw cotton and 33 per cent as processed cotton, representing a major shift toward the further value-added processing of raw cotton. Nevertheless, it seems likely that Pakistan has achieved such changes, in part at least, by re-directing income from farmers to processors. Such income transfers are unlikely to be advantageous when viewed from a whole of economy perspective. However, all other things being equal, favouring cotton processing in Pakistan in this way can be expected to reduce the likelihood of an expansion in cotton processing in Australia.

### 7.4.4 Hides and leather

Inquiry participants expressed concerns about the export taxes and bans on hides in many countries, which distort raw material prices to favour local tanners and encourage local processing.

As exports of raw hides and skins are restricted or incur a tax burden, the domestic price of these commodities reduces and the viability of local tanning increases. (Michell Leather, sub. 42, p. 8)

As with cotton, participants assumed that export taxes and bans would necessarily reduce the price of raw hides. However, any artificial reduction in the price received by farmers reduces the profitability of livestock production
and hence the supply of hides. The reduced supply might result in an offsetting increase in the price of raw hides. Because of the time it takes to breed and expand livestock numbers, and because hides are no more than a by-product of animal production, the supply of hides is likely to be less responsive to price than cotton in the medium term. However, in common with cotton, policies which artificially reduce prices to farmers nevertheless will encourage farmers to cut back their livestock production. The reduced supply might result in an offsetting increase in raw hide prices. Again, while the exact combination of price and volume effects is unclear, it seems likely that by pursuing such policies, countries will cause distortions in their domestic economies as they artificially re-direct income from farmers to processors.

A paper by the United Nations Food and Agriculture Organisation (FAO), which reviewed the restrictions operating in 25 countries, stated that ‘these restrictions may have contributed to reducing raw material exports while permitting or even encouraging those of processed and manufactured exports’ (Michell Leather, sub. 42, Attachment 2).

Submissions indicated that the cost of the hide accounted for a substantial and increasing proportion of the wet blue and finished leather cost structure, thereby reducing the scope to achieve overall cost savings by means of greater efficiencies in other areas.

In the leather industry, as for many other “earlier stage” parts of the TCF industries, there is no scope for the tanner to make efficiencies in other areas that can compensate for significant raw material pricing disadvantages. Thus the world’s leather industry investment flows will be more influenced by this factor than by labour, energy, freight or other costs. (Michell Leather, sub. 42, p. 9)

The Federated Tanners Association and Michell Leather both argued that there should be no reductions in assistance to the Australian industry until Australia’s trading partners did likewise:

Government must be alert to, and must assist industry by monitoring and quantifying these raw material price management mechanisms in other countries. It should make any significant further ‘opening’ of the Australian market dependent upon a clear reduction in their use. On-going viability of present Michell Leather investments in Australia and the prospects of our investing further will be dependent upon progress in this area. (Michell Leather, sub. 42, p. 9)

The Geraldton Tannery Pty Ltd indicated that ‘The greatest problem we have is sourcing good quality skins at a reasonable price’ (sub. 2, p.1) and suggested the adoption of an export tax, with the money raised being used to encourage further processing of skins in Australia.
The simple solution as I see it is to initiate a surcharge of say $5/skin on each raw or salted skin exported and to in turn feed the money back into fostering the processing of skin[s] in Australia. (sub. 2, p. 1)

VHSP Pty. Ltd. also suggested an export tax or levy as a less discriminatory measure than the ICS to encourage further value adding\(^\text{18}\):

The replacement of the current assistance program with a levy on the export of salted bovine hides would assist both the finished and the wet blue leather producers at the expense of the exports of salted hides. The increase in value adding in Australia was one of the key objectives of the current assistance program (ICS), but this levy would not discriminate between different levels of value adding in the leather industry as does the ICS. (sub. 29, p. 10)

Under the WTO Agreement on Subsidies and Countervailing Duties (ASCD), an export tax which was used to subsidise the further processing of skins within Australia could be deemed by the WTO to be an export subsidy. This situation could arise if the money raised was used, in effect, to subsidise intermediate inputs used in the production of an exported product, particularly if the artificial reduction in the price of intermediate inputs was greater for export production than for like products sold domestically. However, just as Australia would be vulnerable to such a finding if it introduced an export tax, the Australian government should monitor the raw material pricing policies and export taxes now operating in competing countries, to ensure that they too comply with the provisions of the ASCD.

Finding

The artificial reduction of commodity prices to assist further value adding in competing economies does not justify Australia adopting special compensatory assistance measures.

**Recommendation**

The Australian Government should monitor other countries’ interventions in fibre and hide markets to ensure their consistency with WTO rules.

7.5 Summary

The preceding review of tariffs, quotas and non-tariff barriers points to the following conclusions:

- Australia is not subject to MFA/ATC quotas on any exports of textiles and clothing to the US and EU.

\(^{18}\) Further comment by VHSP Pty Ltd is contained in Chapter 9 which deals with the ICS.
• World trade in textiles and clothing has been distorted by quotas but these are being wound back on a phased schedule to 2004.
• There is no evidence that developed countries like the US, Canada and the EU are not implementing the ATC and, contrary to some participants’ views, these countries have not been increasing TCF trade barriers.
• The phasing-out of quotas might reduce the flow of imports to Australia and would have a positive effect on the demand for Australian wool. ‘Backloading’ of the quota phase-out under the ATC will delay not eliminate this beneficial effect.
• The Government should monitor implementation of the ATC and encourage its implementation according to the agreed timetable.
• Tariffs, not quotas, are the major direct restraint on Australia’s access to overseas markets.
• The Government should press for reduced TCF tariff escalation in future WTO negotiations.
• Tariffs are falling and reductions agreed to by other countries as part of the Uruguay Round will improve market access for Australia’s TCF exports.
• It is not correct to claim that tariffs for TCF in Australia’s major trading partners are generally much higher than those in Australia, particularly in the case of the EU and the US. In China, on the other hand, TCF tariffs typically are higher than those in Australia.
• Australian imports of clothing from China (on a per capita basis) are well below those of Japan.
• NTBs represent a significant impediment to trade and should be monitored by the Government with a view to encouraging other governments to remove them.
• The practice by competing economies of reducing artificially the price of raw material inputs, to encourage further value adding in those countries, does not justify Australia adopting special compensatory assistance measures. However, raw material pricing policies in competing economies should be monitored by the Australian Government to ensure their consistency with WTO rules.
8 GOVERNMENT PROGRAMS TO IMPROVE COMPETITIVENESS

8.1 Introduction

The TCF industries have received budgetary assistance in many forms from all levels of government. Most of this assistance has come from the Commonwealth Government and has been sector-specific. This includes assistance based on tariff revenue forgone under the Import Credit Scheme and the Overseas Assembly Provision Scheme, which are discussed in Chapters 9 and 6, respectively, and from bounties, which are discussed in Chapter 6. From 1987 to 2000, sector-specific Commonwealth Government assistance will have exceeded $1 billion. This is additional to the assistance received from tariffs and import quotas (discussed in Chapter 6). The stated aim of most of the Commonwealth budgetary assistance received by the sector over the past decade has been to improve competitiveness in these industries.

In addition, TCF companies have access to general programs available to all industries, such as the research and development tax concession and export market development grants. At the Commonwealth level, the TCF industries received at least $23 million of assistance in 1995-96 through generally available programs.1 State and local governments also have provided assistance. At the State level, while the Commission is aware that considerable assistance has been provided to some firms, information is not available publicly regarding its exact value.

At the Commonwealth level, TCF-specific budgetary assistance has been given through the Industries Development Strategy (IDS), which was part of the Button Plan and the currently-operating TCF 2000 Development Strategy (see Table 8.1). Appendix H describes these programs.

The IDS contained programs designed to promote modernisation, rationalisation and capital investment through the provision of grants (‘capital grants’) and programs aimed at improving TCF infrastructure (such as training) and business management skills, including exporting (‘infrastructure and management programs’).

1 This figure excludes AusIndustry Enterprise Improvement Program services delivered in Victoria, for which no data were provided.
The development of the capital grants and infrastructure and management programs under the IDS is shown in Figure 8.1.

**Figure 8.1: Industries Development Strategy, 1987 to 1995**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Materials Program</td>
<td>Further Wool Processing Program</td>
<td>($0.0m)</td>
<td>($35m)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Textiles Industry Modernisation Program</td>
<td>Capitalisation Grants Program</td>
<td>($2.0m)</td>
<td>($140.8m)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incentives for International Competitiveness</td>
<td>Incentives for International Competitiveness</td>
<td>($89m)</td>
<td>($21m)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Business Skills Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industries Infrastructure Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Development Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industries Efficiency Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Industries Infrastructure Support Program**

Note: Original IDS programs in ‘square’ boxes; additional programs in ‘rounded’ boxes. Data exclude Import Credit Scheme; Overseas Assembly Provisions Scheme; and bounties.

a An additional $2m was spent by the Authority under this program on consultants to help assess grant applications.

b $21 million includes money spent under the Management Business Skills, Industries Infrastructure and Export Development Programs.

**Source:** TCFDA various years, Annual Reports

In 1995, a new package of budgetary assistance measures was announced, known as the TCF 2000 Development Strategy. These programs were budgeted to cost $33 million between 1996 and 2000 (Cook 1995). The original suite of programs as announced under this strategy was:

- AusIndustry TCF Outreach Program ($14.9 million);
  - TCF Best Practice Project;
  - TCF Quick Response;
  - TCF Handbook and On-line Access project;
- AusIndustry Quality Program ($8.4 million);
- TCF International Information Project ($1.3 million); and
• TCF Infrastructure Program ($8.4 million),
  - Investment Promotion Project;
  - Investment Attraction Project;
  - Training Project; and
  - Outworker Entitlement Project.

In addition, a TCF Advisory Panel was to be set up to provide a link between the industries and the Minister to discuss the implications for the TCF industries of international agreements such as the General Agreement on Tariffs and Trade (GATT), the Asia Pacific Economic Cooperation (APEC) Forum, the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), and the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA).

However, in 1996 the Howard Government decided to forgo the first year’s funding, resulting in the overall budget being reduced. Some activities, such as the TCF International Information program and the Investment Project were put on hold. Funds for an outworker entitlement project and a training project were still available within the Program and are currently under development.

Table 8.1: Commonwealth TCF-specific budgetary assistance to firms, 1987 to 2000

<table>
<thead>
<tr>
<th>Program</th>
<th>Stated purpose</th>
<th>Value a $(m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further Wool Processing</td>
<td>To add value to domestic wool clip</td>
<td>35</td>
</tr>
<tr>
<td>Capitalisation Grants Programb</td>
<td>To give firms the option to capitalise the future value of their textile yarn bounty</td>
<td>141</td>
</tr>
<tr>
<td>Textile Industries Modernisation Scheme</td>
<td>To encourage yarn bounty recipients to modernise</td>
<td>2</td>
</tr>
<tr>
<td>Industries Infrastructure Support Programc</td>
<td>To improve the effectiveness and use of the TCF industries’ infrastructure</td>
<td>21</td>
</tr>
<tr>
<td>Incentives for International Competitiveness Programd</td>
<td>To provide restructuring grants for firms striving to become internationally competitive</td>
<td>89</td>
</tr>
<tr>
<td><strong>Total Industries Development Strategy</strong></td>
<td></td>
<td><strong>288</strong></td>
</tr>
</tbody>
</table>

*Table continued over page.*
Table 8.1  (continued)

| Program                                           | Stated purpose                                      | Value\(^a\)  
|---------------------------------------------------|-----------------------------------------------------|--------------
|                                                   | ($m)                                                |              
| Supply Chain Partnership Program                  | To develop quick response alliances                  | 2.5          
| Best Practice Program                             | To encourage best practice techniques                | 7.7          
| Quality and Business Improvement Program          | To improve small and medium TCF firms management skills and competitiveness | 6.5          
| Benchmarking Program                              | To evaluate performance against domestic and international best practice | 0.5          
| **Total TCF 2000 Development Strategy**           |                                                      | **17.2**     

**Other sector-specific budgetary assistance to firms**

| Program                                           | Stated purpose                                      | Value\(^a\)  
|---------------------------------------------------|-----------------------------------------------------|--------------
| Import Credit Scheme\(^f\)                        | To allow exporters to earn credits on import duties | 480.8        
| Overseas Assembly Provisions\(^g\)                | To allow duty-free re-importation of certain types of Australian value added content | 19.1         

**Bounties\(^h\)**

| Program                                           | Stated purpose                                      | Value\(^a\)  
|---------------------------------------------------|-----------------------------------------------------|--------------
| Textile Yarns\(^i\)                               | To promote domestic yarn production                  | 349.1        
| Printed Fabrics                                   | To promote domestic fabric printing                  | 8.4          
| Bed Sheeting                                      | To promote domestic bed linen production             | 12.5         

**Total budgetary outlay assistance to firms (1987 to 2000)**  
1 175.4


\(b\) The Capitalisation Grants Program allowed capitalisation of an ongoing stream of bounty payments (the bounty to expire in June 1995) and involved a saving to the Government of at least 15 per cent in net present value terms. This figure is for 1990-91 to 1996-97 (in 1996 dollars).

\(c\) This program was revised in 1991 to include the previous Export Development Program and the Management Business Skills Program.

\(d\) In 1991 this program was strengthened and became the main channel for providing grants. An additional $2m was spent by the Authority on consultants to help assess grant applications.

\(e\) The Howard Government revised the package significantly. Some of the planned programs were abolished or put on hold. The programs listed in this package are programs which have been undertaken.


\(g\) 1992-93 to 1995-96.

\(h\) Bounties, rather than tariffs, were used to assist some industry sectors.

\(i\) 1988-89 to 1995-96, excludes Capitalisation Grants Program payments.

**Source:** DEETYA unpublished information; TCFDA (1995); DIST TCF Branch, unpublished information
In addition, the TCF Advisory Board has been established as the primary source of advice to the Government on issues confronting the TCF industries. The members of the Board were announced by the Minister in July 1996.

While the sector-specific programs under the IDS have ceased, an examination of these programs is warranted for three reasons.

First, these schemes have been responsible, in part, for creating the industry structure that exists today. Understanding the TCF industries’ current strengths and weaknesses requires an understanding of this contribution. Second, several participants, including the Council of Textiles and Fashion Industries of Australia (TFIA), have argued for further sector-specific assistance to improve competitiveness. These requests can be examined in the light of the successes and failures of previous assistance schemes. Third, there are positive and negative aspects of these schemes which may be applicable to industry policy more broadly.

This chapter does not contain a detailed cost–benefit analysis of these programs. It concentrates on the general effects of the programs on industry structure and performance, and on how successful the programs were in meeting their goals.

### 8.2 Objectives of the Industries Development Strategy

The IDS contained a range of ‘positive’ assistance measures designed to encourage firms in the industry to become more internationally competitive and thus better able to survive in an environment of lower protection. While lower protection in itself was acknowledged as one means of promoting “desirable restructuring, rationalisation and improved competitiveness”, positive assistance was also thought to be required:

... to ensure that the industries improve their internal efficiencies including developing new products and processes, make effective use of new technology and upgrade their business infrastructure. Assistance aimed at helping the industries overcome problems and take advantage of areas of opportunity will also reduce the period of time the industries need to become less dependent on community support. (Button 1987, p. 6)

The IDS was administered by the Textiles, Clothing and Footwear Development Authority (TCFDA), which was disbanded in February 1996. The objectives of the TCFDA, as stated in the Textiles, Clothing and Footwear Development Authority Act 1988 were:

(a) to promote the restructuring and revitalisation of the TCF industries so as to improve their efficiency and international competitiveness; and
(b) to reduce the dependence of those industries on assistance by the Commonwealth. (s.6)

8.3 Capital grant schemes

Most of the expenditure under the IDS was for capital equipment grants ($267 million of the total $288 million), spent under the Incentives for International Competitiveness, Further Wool Processing, Capitalisation Grants and Textiles Industry Modernisation Programs. The Raw Materials Processing Program was designed to be a capital grants program, although no projects were approved under this scheme. The Capitalisation Grants program, which accounted for about half of the IDS package payments, did not represent ‘additional’ government expenditure, since it replaced bounty payments due until June 1995. The guidelines stated that the capitalisation should result in a net saving to the Government of 15 per cent in net present value terms.

The TCFDA pursued a deliberate policy to promote early-stage, capital-intensive industries because it thought that these industries had a better chance of survival in Australia than more labour-intensive industries (Werner International 1994, p. vii.5). The final breakdown of expenditure by industry group is presented in Table 8.2.

Table 8.2: TCFDA capital grant approvals, by industry group, 1988 to 1994

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value</th>
<th>Percent of total</th>
<th>Number of grants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($m)</td>
<td>(%)</td>
<td>(No.)</td>
</tr>
<tr>
<td>Wool processing</td>
<td>35.0</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Textiles</td>
<td>204.5</td>
<td>77</td>
<td>65</td>
</tr>
<tr>
<td>Clothing</td>
<td>18.4</td>
<td>7</td>
<td>44</td>
</tr>
<tr>
<td>Footwear</td>
<td>2.8</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>Leather</td>
<td>6.0</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>266.7</strong></td>
<td><strong>100</strong></td>
<td><strong>139</strong></td>
</tr>
</tbody>
</table>

*Source: DIST Correspondence, 17 April 1997*

The top 10 recipients received more than half of total IDS grant assistance. Table 8.3 outlines these recipients and the amounts received.

Grant recipients were required to sign agreements outlining expenditure on specific projects. The vast majority of these commitments were fulfilled, either exactly or on ‘best endeavours’. The total expenditure undertaken under the
capital grant programs was $631 million. Table 8.4 shows the number of grant recipients which fulfilled their grant obligations and the amount of project expenditure undertaken under the programs.

Table 8.3: Top 10 recipients of TCFDA capital grant funding

<table>
<thead>
<tr>
<th>Company</th>
<th>Stated purpose</th>
<th>Scheme</th>
<th>Value (Sm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DuPont</td>
<td>Restructure and capital investment in the synthetic yarn industry</td>
<td>CAP</td>
<td>59.3</td>
</tr>
<tr>
<td>Rocklea Spinning Mills&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Acquisition of spinning plant, reduction of external debt, and restructuring of cotton textile operations</td>
<td>CAP and TIM</td>
<td>29.0</td>
</tr>
<tr>
<td>Pacific Dunlop&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Acquisition of plant and equipment, rationalisation costs and retirement of debt</td>
<td>IIC and CAP</td>
<td>16.4</td>
</tr>
<tr>
<td>Textiles Industries Australia (Bulli Spinners, Bruck Textiles, Actil)</td>
<td>Capital expenditure and reduction of external debt associated with capital expenditure, and for spinning and associated equipment</td>
<td>CAP and TIM</td>
<td>15.8</td>
</tr>
<tr>
<td>Bradmill Undare&lt;sup&gt;c&lt;/sup&gt;</td>
<td>Acquisition of equipment and rationalisation costs, and debt retirement</td>
<td>IIC and CAP</td>
<td>15.7</td>
</tr>
<tr>
<td>Macquarie Textiles</td>
<td>Acquisition and relocation of plant and equipment</td>
<td>IIC</td>
<td>13.0</td>
</tr>
<tr>
<td>Leading Group&lt;sup&gt;d&lt;/sup&gt;</td>
<td>Establish polyester filament, fibre and chip production facility, and establishment of a cotton system spinning plant</td>
<td>IIC</td>
<td>8.0</td>
</tr>
<tr>
<td>Godfrey Hirst&lt;sup&gt;e&lt;/sup&gt;</td>
<td>Upgrade of wetgoods dryer, acquisition of plant and equipment for wool-based carpet, acquisition of blending bins and twisting frame</td>
<td>IIC, CAP</td>
<td>7.6</td>
</tr>
<tr>
<td>Capital Carpets Industries (Minster Carpets, Pacific Carpets and Polygold Industries)</td>
<td>Yarn and carpet manufacturing plant purchase</td>
<td>CAP</td>
<td>7.5</td>
</tr>
<tr>
<td>Chargeurs Textiles</td>
<td>Expansion of wool top-making capacity</td>
<td>FWP</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>178.8</strong></td>
</tr>
<tr>
<td><strong>Percentage of total capital grants</strong></td>
<td></td>
<td></td>
<td><strong>67%</strong></td>
</tr>
</tbody>
</table>

FWP – Further Wool Processing Program  
CAP – Capitalisation Grants Program  
TIM – Textiles Industry Modernisation Scheme  
IIC – Incentives for International Competitiveness

<sup>a</sup> Rocklea Spinning Mills received $16 million through a legal entity named YTM Pty Ltd.

<sup>b</sup> Pacific Dunlop received a CAP grant through Bonds Industries ($7.4m), and IIC grants for Bonds Industries ($1m), Tontine Industries ($2.5m), Fitwear/Red Robin ($1.3m) and Jockey ($0.2m).

<sup>c</sup> Bradmill Textiles received $7.5 million through the CAP and Undare received $8.1 million through the IIC.

<sup>d</sup> Leading Group received $6 million through Leading Synthetics and $2 million through Leading Spinning.

<sup>e</sup> Godfrey Hirst received a $3.3 million CAP grant through Barwon Spinners, a wholly owned subsidiary.

*Source: TCFDA various years, Annual Reports*
Table 8.4: Capital grant status, amount of grants and project expenditure under TCFDA capital grants programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Grants (No.)</th>
<th>Amount of grants ($m)</th>
<th>Project expenditure ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles Industry Modernisation Program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>1400</td>
<td>0.72</td>
<td>2.63</td>
</tr>
<tr>
<td>Amount of grants ($m)</td>
<td>5</td>
<td>1.33</td>
<td>6.14</td>
</tr>
<tr>
<td>Project expenditure ($m)</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Grants</td>
<td>1</td>
<td>65.18</td>
<td>na</td>
</tr>
<tr>
<td>Amount of grants ($m)</td>
<td>18</td>
<td>16.28</td>
<td>na</td>
</tr>
<tr>
<td>Project expenditure ($m)</td>
<td></td>
<td>59.34</td>
<td>na</td>
</tr>
<tr>
<td>Incentives for International Competitiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>47</td>
<td>38.00</td>
<td>181.31</td>
</tr>
<tr>
<td>Amount of grants ($m)</td>
<td>33</td>
<td>8.44</td>
<td>35.54</td>
</tr>
<tr>
<td>Project expenditure ($m)</td>
<td>29</td>
<td>41.98</td>
<td>250.97</td>
</tr>
<tr>
<td>Further Wool Processing Program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>0040</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amount of grants ($m)</td>
<td>4</td>
<td>35.00</td>
<td>153.00</td>
</tr>
<tr>
<td>Project expenditure ($m)</td>
<td></td>
<td>0</td>
<td>153.00</td>
</tr>
<tr>
<td>Total all grants</td>
<td>62</td>
<td>103.90</td>
<td>183.93</td>
</tr>
<tr>
<td>Amount of grants ($m)</td>
<td>40</td>
<td>26.04</td>
<td>41.68</td>
</tr>
<tr>
<td>Project expenditure ($m)</td>
<td>34</td>
<td>136.32</td>
<td>403.97</td>
</tr>
<tr>
<td>Total all grants</td>
<td>3</td>
<td>0.46</td>
<td>1.57</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grant status</th>
<th>Fulfilleda</th>
<th>Best endeavoursb</th>
<th>Ongoing</th>
<th>Liquidation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles Industry Modernisation Program</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Capitalisation Grants Program</td>
<td>14</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>Incentives for International Competitiveness</td>
<td>47</td>
<td>33</td>
<td>29</td>
<td>3</td>
<td>112</td>
</tr>
<tr>
<td>Further Wool Processing Program</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Total all grants</td>
<td>62</td>
<td>40</td>
<td>34</td>
<td>3</td>
<td>139</td>
</tr>
</tbody>
</table>

a Refers to a company which fulfilled all its commitments exactly.
b Refers to a company which did not fulfil all commitments exactly, but nevertheless substantially met these commitments, and met the spirit of the agreement.
c Comprises $20 million in grant payments and $15 million in loans.
d Does not include project expenditure under the Capitalisation Grants Program.
nanot applicable.

Source: DIST Correspondence, 17 April 1997

The grants were used by participants for a variety of purposes, as shown in Table 8.5. The majority of grants (and also the bulk of funding) went towards plant upgrades and equipment.

Participants were required to sign agreements committing them to meet a range of performance targets. These targets varied across participants, but commonly
referred to export, production, investment and other financial performance

Table 8.5: Capital grants, by purpose

<table>
<thead>
<tr>
<th>Purpose</th>
<th>TIM</th>
<th>CAP</th>
<th>IIC</th>
<th>FWP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(No.)</td>
<td>(No.)</td>
<td>(No.)</td>
<td>(No.)</td>
<td>(No.)</td>
</tr>
<tr>
<td>Debt retirement</td>
<td>0</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Restructuring/rationalisation</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>Expansion of capacity</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Upgrade of plant and equipment</td>
<td>5</td>
<td>18</td>
<td>109</td>
<td>0</td>
<td>135</td>
</tr>
<tr>
<td>Greenfields</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>

Note: Some grants appear in more than one column.
TIM Textiles Industry Modernisation Program.
CAP Capitalisation Grants Program.
IIC Incentives for International Competitiveness Program.
FWP Further Wool Processing.
Source: DIST Correspondence, 17 April 1997

indicators. Table 8.6 shows, for firms which have completed their agreed program and met all requirements, the number committed to each type of target and the number of firms which were able to meet these targets exactly, or on best endeavours. These firms represent 13 per cent of the total number of firms which received capital grants. This shows that export targets proved to be the most difficult for firms to meet exactly, although all managed to complete their programs through best endeavours (that is, they met the spirit of the agreement).

Table 8.6: Performance targets: fulfilled and best endeavours

<table>
<thead>
<tr>
<th>Type of performance target</th>
<th>Recipients nominating target</th>
<th>Targets fulfilled</th>
<th>Targets met on 'best endeavours'</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(No.)</td>
<td>(No.)</td>
<td>(No.)</td>
</tr>
<tr>
<td>Exports</td>
<td>48</td>
<td>22</td>
<td>26</td>
</tr>
<tr>
<td>Production</td>
<td>66</td>
<td>57</td>
<td>9</td>
</tr>
<tr>
<td>Investment</td>
<td>15</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Financial performance</td>
<td>78</td>
<td>60</td>
<td>18</td>
</tr>
</tbody>
</table>

Note: For the 102 firms which have completed their performance commitments.
Source: DIST Correspondence, 17 April 1997
8.3.1 Effect on the industries

The IDS has had an influence on the present structure and performance of the industries through its effect on the capital stock and its bias towards large, early-stage, capital-intensive companies.

In 1995, the TCFDA stated that:

It is still too early to determine conclusively whether the Plan has been successful in its primary aim of restructuring the TCF industries to be internationally competitive and less reliant on Government assistance. However, there are clear indications that many firms are now internationally competitive and that this can be directly attributable to the Plan. Increases in industry value added relative to the quantity of goods produced, combined with enhanced export performance, increasing imports and a decline in the real cost of TCF products, provide some support for this view. In addition, the Future Strategies Committee (FSC) which was appointed by the Government to review the TCF industries in 1994, found that the TCF Plan had been largely successful in achieving this aim. (TCFDA 1995, p. 18)

Even though the longer-term effects of these policies are still to be determined, it is possible to distinguish several effects at this stage.

Effect on capital stock

Most TCFDA funds went towards purchasing capital equipment. TCFDA grants were conditional upon firms making a substantial commitment themselves in a project. The effect of these grants was to create a newer capital stock in the industry, probably newer than would have existed without the grants. The expansion of capacity in early-stage wool processing through greenfield sites is the major example of how the schemes have contributed towards a newer, larger capital stock.

Recipient firms were able to raise labour productivity with their upgraded capital equipment. For example, CDA Industries stated:

In our company’s case, the $1 million grant received in 1994-95 under the International Competitiveness Program allowed us to install new dyeing and ancillary equipment which greatly improved our efficiency and competitiveness in that process. (sub. 59, p. 14)

Rocklea Spinning Mills stated:

The Bounty Capitalisation Scheme allowed us to invest heavily in rationalisation, modernisation and expansion of our factories. (sub. 50, p. 8)

How much of the additional investment pursued at this time was actually caused by the scheme is debatable. The TCFDA granted funds only to firms which it judged to be viable without the grant. However, some of this additional activity
would have occurred anyway, and some may have been induced by smaller grants. As noted by the Australian National Audit Office:

Selection of projects that are viable without grant assistance implies that the projects could go ahead anyway. The TCFDA states that funding encourages changes in the way firms do business, may help a project to proceed sooner, or may provide a ‘demonstration’ effect to other firms. The ANAO considers that with suitable vetting for reasonableness, the stated difference (impact of the grant) would be a better criterion for awarding of grants. (ANAO 1995, p. 49)

Werner International noted that:

There was no evidence that proposals which were refused assistance were aborted completely. Some may have been scaled back or delayed, but all were initiated in some form. Certainly investment plans by the larger players were not dependent on assistance to be viable. Clearly the industries’ participants realised the importance of investing if they were to survive into the 1990s and beyond. (1995, p. Vi.6).

The Mortimer Review of Business Programs stressed the importance of not funding activity which would have occurred without government assistance. It recommended that, as a threshold test, all business programs must provide a net economic benefit:

• inducing new activity in a chosen area that would not have occurred without assistance; or
• accelerating activities which deliver net economic benefits. (Mortimer 1997, p. 72)

Effect on competitors

Participants have cited examples of where assistance given to one company has been a factor in the departure of competitors. The net effect of assistance on industry activity is therefore likely to have been less than the sum of all additional subsidised activity.

Jacques Journee stated:

The cost to us of not receiving certain grants or credits/reimbursements etc has left us at paying 30 to 50 per cent more for major expenses compared to some of our competitors receiving those grants and subsidies. It left our company at a serious disadvantage to compete in the local market and depleted our reserves to continue our endeavour to export.

As directors we had no other option but to liquidate our business. (sub. 123, p. 1)

In another case of ‘crowding out’ non-subsidised activity, Traxtion Sports noted that:
In past years our rural district [Mt Gambier] employed 130 people at a spinning mill. Due to the wisdom of the Textile Clothing and Footwear Development Authority ... a grant [was given] to a Victorian textile manufacturer in 1992 to remove state of the art machinery and shut down this operation. A Japanese interest, C. Itoh, ... representing one of Japan’s largest buyers of Australian wool reportedly wanted to buy this mill and establish a scouring and dye plant, a scheme which could have made our area one of the world’s chief wool processors. ... This type of centralisation action from large industries and Government not only costs rural workers their jobs but has a damaging effect on the Australian economy. (sub. 41, p. 1)

Similarly, Gibbs Burge argued that:

... grants have gone to overseas interests to ... establish new ... [plants], such as the wool scouring and top-making plant at Lara. (On the other hand, the old-established Marnockvale scouring plant, in Geelong, has recently gone to the wall, which almost neutralised the newly created employment in the area.) (sub. 26, p. 17)

The TCFDA pursued a deliberate strategy of supporting larger firms. Several participants complained that this was at the expense of supporting smaller firms. For example, Gibbs Burge stated:

It is our belief that many of these initiatives, particularly the large capital grants, or capitalisation of future export bounties, have been ill-directed. Most of the money has gone, in multi-million dollar amounts, to specific, usually large, conglomerates, at the expense of the host of small to medium-sized businesses. Whilst they have increased exports, almost all of these are, seemingly, costing the taxpayer dearly. (sub. 26, pp. 16–17)

Corfu Jeans concurred:

The government allocated substantial amounts of money to the industry to restructure, most of which has gone to a few big companies and a lot of the smaller ones that needed it far more did not see a dime. (sub. 118, p. 2)

The negative effects on domestic competitors could be interpreted as one way of meeting the TCFDA’s goal of promoting restructuring within the industries. This would have required the early departure of more marginal (not necessarily small) firms in order to build industries with fewer, stronger firms which were less dependent in aggregate on government support.

**Extent of rationalisation**

The TFIA criticised the assistance delivered by the TCFDA for not inducing enough rationalisation in the industry:

... a lot of the activity that the TCFDA got involved with in its early days was in adding to new capacity rather than reconfiguring the industry. There’s certainly a lot of talent there and it didn’t take too long to find the right formula.
However, a lot of money was spent before that point was reached. In general, I think its effectiveness was not as high as it could have been.

... if you have a good look at the way the money was spent ... a lot of it wasn’t becoming more internationally competitive or reconfiguring the industry, it was really on replacing some worn-out parts of the industry. (trans., p. 504)

As shown in Table 8.7, there were 15 grants for rationalisation (out of a total of 139). These accounted for almost half of the total IDS capital grant expenditure and a high proportion of expenditure (70 per cent) under the Capitalisation Grants Program (see Table 8.1).

This may suggest that assistance in a lump sum form was able to facilitate rationalisation in the spinning industries more effectively than the ongoing yarn bounty it replaced. However, other factors at work at this time were likely to have contributed to rationalisation, and it is difficult to know what would have happened in the absence of the scheme — although, as noted above, Werner International considered that several projects would have gone ahead without any government support.

### Table 8.7: Rationalisation grants, by program

<table>
<thead>
<tr>
<th>Program</th>
<th>Grants for rationalisation</th>
<th>Total number of grants</th>
<th>Value of grants allocated to rationalisation ($m)</th>
<th>Proportion of expenditure allocated to rationalisation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IIC</td>
<td>10</td>
<td>112</td>
<td>38.9</td>
<td>43.8</td>
</tr>
<tr>
<td>CAP</td>
<td>5</td>
<td>18</td>
<td>98.0</td>
<td>69.6</td>
</tr>
<tr>
<td>FWP</td>
<td>0</td>
<td>4</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>TIM</td>
<td>0</td>
<td>5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
<td><strong>139</strong></td>
<td><strong>137.0</strong></td>
<td><strong>51.4</strong></td>
</tr>
</tbody>
</table>

IIC Incentives for International Competitiveness.
CAP Capitalisation Grants Program.
FWP Further Wool Processing Program.
TIM Textiles Industry Modernisation Program.

Source: DIST correspondence, 17 April 1997

Almost half of the funding under the Incentives for International Competitiveness Program went to ten grants for rationalisation (out of a total of 112 grants under this scheme). The emphasis of this program appears to have been on upgrading plant and equipment. The Incentives for International Competitiveness Program was the only scheme which provided grants to all TCF industry groups. The breakdown by industry group of rationalisation grants under this program is shown in Table 8.8.
Pacific Brands, one of the larger grant recipients, stated:

The Holeproof [grant was]... undeniably a good grant, because it took a fragmented sock-knitting industry and it almost rationalised the sock industry on its own, which is pretty hard to do through one firm. So it was undeniably a rationalisation of inefficient and substandard equipped operations in the current environment. (trans., p. 515)

Table 8.8: Grants for rationalisation under the Incentives for International Competitiveness Program, by industry group

<table>
<thead>
<tr>
<th>Sector</th>
<th>Rationalisation grants (No.)</th>
<th>Amount of rationalisation grants ($m)</th>
<th>Value of rationalisation investment ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>6</td>
<td>31.14</td>
<td>151.20</td>
</tr>
<tr>
<td>Clothing</td>
<td>4</td>
<td>7.80</td>
<td>22.97</td>
</tr>
<tr>
<td>Footwear</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Leather</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>38.94</strong></td>
<td><strong>174.18</strong></td>
</tr>
</tbody>
</table>

Source: DIST Correspondence, 17 April 1997

The lack of rationalisation among the vast majority of recipients may have restricted the competitiveness of some firms in the longer term. In some cases, it is possible that the receipt of a grant delayed rationalisation, as firms were able to operate for longer without substantial structural change. Such change was not a necessary precondition for receiving some grants, particularly under the Incentives for International Competitiveness Program.

Effect on firm viability

One of the primary aims of the TCFDA was to reduce firms’ reliance on community support (that is, other forms of support, such as tariffs) (Textiles, Clothing and Development Act 1988, s.6). Yet there is a danger in assuming that granting assistance in a new form will lessen companies’ dependence on assistance in other forms. Very few participants have claimed to be able to survive without further assistance, either for themselves, for firms supplying them with inputs or for those using their products.

Wool processing has increased substantially and has received considerable grant assistance. (Production of wool tops has doubled since the program began.) However, there are some doubts as to whether all of the additional capacity is warranted and viable in the long-term. GH Michell (Wool) stated:
In our view, the increased activity in early stage wool processing in Australia over the last five or so years provides a clear example of how not to go about attracting new investments. The directing of significant government grants to certain investors by a panel of people appointed by politicians is fraught with dangers.

The grants directed to certain processing investments in the early 1990s through the Further Wool Processing Program did not lead to industry efficiency. Production of tops is now running at 54mkg per year and installed capacity is around 75mkg. This excess of capacity, coupled with over-capacity elsewhere in the world is now undermining profitability. (sub. 138, p. 3)

The Australian Wool Processors Council stated:

Early stage wool processing is an international industry and the increase in Australian capacity, together with the development of new plants in China and India have resulted in a world over-capacity in topmaking. This, at a time of downturn in the industry, is seriously affecting the profitability of all topmakers. Processors are endeavouring to differentiate their product to provide a market advantage, and when the wool market turns, Australia will be well placed to benefit from renewed demand. (sub. 79, p. 2)

Cotton spinning was another major recipient of budgetary assistance (largely through capitalisation of the yarn bounty).

Some recipients have stated that their viability is still dependent on government assistance, which suggests that the TCFDA’s goal of reducing firms’ dependence on community support has not been fully met. For example, some of the clothing manufacturers supported by TCFDA grants have argued that they will not be viable in the longer term without tariff assistance.

Grants were made also in areas with historically low levels of market share accounted for by imports. Hilton Hosiery (a division of Sara Lee Holdings and a major pantihose producer) received $3.9 million despite operating in an environment where imports accounted for only 13 per cent of the market. This grant is likely to have improved the company’s competitive position relative to other domestic producers. The ANAO’s criticism of TCFDA procedures is relevant in this context — it stated that the Authority’s assessment of international competitiveness was lacking in that the extent to which the firm was operating in an international market appears not to have been assessed thoroughly.

Gibbs Burge stated:

Many of the large textile conglomerates in Australia have come together not as a response to government policies designed to promote industrial efficiency, but rather as a consequence of the somewhat dubious activities of a few so-called entrepreneurs of the ‘80s. When they stripped the company’s assets and in some cases, fled the country, the component companies reverted to the banks. They
then cut their losses and sold them as going concerns, at a fraction of their true value. The new owners are therefore working an excellent modern plant from a very low capital investment. It is very easy, in these circumstances, for them to do well. When the government then chips in with $15 or $16 million, they will do exceptionally well. But to equate the subsequent export success of the company to the brilliance of government policies and decision making is to draw a very long bow indeed. (sub. 26, p. 17)

To date, of the 139 grants awarded, only three grant recipients have gone into liquidation. These firms received relatively small grants, totalling less than $500,000. Several recipients have changed owners, but are still in operation. This would suggest that the TCFDA succeeded in providing assistance to firms which were viable, at least in the short term.

As discussed in Chapter 1, several areas of TCF manufacturing appear to have relatively good prospects for survival, and these do appear to include areas which received considerable assistance from the TCFDA. However, whether these firms are viable in the long term without ongoing assistance will depend on a number of factors.

### 8.4 TCF infrastructure and management improvement assistance

The Industries Infrastructure Support Program (listed in Table 8.1) incorporated elements of the original Management and Business Skills Program, the Export Development Program and the Infrastructure Support Program. These programs all provided ‘infrastructure’ assistance, mainly in the form of educational assistance, either to firms or to institutions. Under these schemes $20.7 million was allocated. Table 8.9 shows the distribution of these funds.

<table>
<thead>
<tr>
<th>Type of assistance</th>
<th>Recipient</th>
<th>Unions ($'000)</th>
<th>Industry ($'000)</th>
<th>Consultants for Government ($'000)</th>
<th>R&amp;D institutions ($'000)</th>
<th>Training institutions ($'000)</th>
<th>Total ($'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education/Training</td>
<td></td>
<td>1 272</td>
<td>1 269</td>
<td>..</td>
<td>..</td>
<td>1 598</td>
<td>4 140</td>
</tr>
<tr>
<td>R&amp;D</td>
<td></td>
<td>..</td>
<td>1 940</td>
<td>105</td>
<td>635</td>
<td>..</td>
<td>2 679</td>
</tr>
<tr>
<td>NIES</td>
<td></td>
<td>..</td>
<td>..</td>
<td>10 453</td>
<td>..</td>
<td>..</td>
<td>10 453</td>
</tr>
<tr>
<td>Export promotion</td>
<td></td>
<td>..</td>
<td>..</td>
<td>2 443</td>
<td>..</td>
<td>..</td>
<td>2 443</td>
</tr>
</tbody>
</table>
About half of these funds were distributed to companies by State governments via the National Industry Extension Service (NIES, a joint Commonwealth-State initiative now under the umbrella of AusIndustry). These funds assisted around 800 companies to develop business plans or other business management practices.

Other large Commonwealth expenditure items included the Quick Response Program (run by the Victorian Government, $1 million) and the Hide Improvement Project (around $400 000). The TCFDA spent a further $1 million on consultancies to develop strategies for meeting its own goals.

The remaining projects were smaller and comprised a diverse selection of grants to unions for education campaigns, grants to education institutions, sponsorship of awards, sponsorship of lecture tours by overseas experts and grants for the development of new technology.

The Hide Improvement Project has been supported by the leather industry, which regards it as of “critical significance to its future viability” (sub. 229, p. 3).

The Scheme has led to greater value adding to Australian hides and skins in recent years, and will continue to be of significant economic benefit to the rural community in coming years...

Further, it is important that the government understands that the achievement of the goals of this program will involve major changes to the level of cooperation between all sectors of the value adding chain. These changes cannot be effected unless championed by government. (Australian Leather Industries Association, sub. 229, p. 3)

The Commission agrees that there is a need for the TCF sector to develop greater linkages and cooperation between stages in the production process. This is likely to be an important part of the process of becoming an internationally competitive, viable and prosperous industry. This issue is discussed more fully in Chapter 1.
8.4.1 Effect on management and education

The Management and Business Skills Scheme (which was amalgamated with the Industries Infrastructure Support Program in 1991) was aimed specifically at improving management skills in the industries. It was administered by NIES.

Several participants commented favourably on the effectiveness of these programs. For example, Burlon Hosiery stated:

We have taken advantage of some assistance programs:
- Development of a business plan.
- Promotion of Quick Response.
- Promotion of networking.

The benefits have been:
- An improved and more effective management structure.
- A better understanding of the strategic direction we should take (i.e. the market niches we should pursue).
- An improved ability to service the Australian market. (sub. 20, p. 5)

However, many participants were disappointed with the quality of the services provided under the NIES/AusIndustry schemes. For example, Scapa Filtration stated:

We have participated in NIES TQM program but the outcome of this was limited due to poor relationship with the consultants involved. (sub. 28, p. 15)

Traxtion Sports criticised these programs for their failure to deliver to non-metropolitan firms:

... programs such as the AusIndustry — Enterprise Improvement Programs ... have only assisted larger companies not the small businesses, and from what I have been able to ascertain this assistance has only been given mainly to metropolitan businesses within this industry. (sub. 41, p. 5)

Werner International criticised the use of a large proportion of NIES funds to prepare applications for TCFDA grant schemes, arguing that firms ought to have prepared their own applications, and that very little firm learning would have occurred in these circumstances (Werner International 1994, p. vii.6).

8.5 Effectiveness of TCF 2000 Development Strategy

The TCF 2000 Development Strategy was announced in 1995 and was based on the recommendations of the Future Strategies Committee, commissioned by the
Commonwealth Government to examine the TCF industries and make recommendations on future programs.

Since only four projects have begun as part of this program, and only one of these has been completed (the development of an information handbook outlining government assistance programs available to TCF firms), it is too early to judge the effectiveness of this package. As the South Australian Government stated:

Although it is too early to tell whether current schemes such as the TCF Quality and Business Improvement Program, TCF Supply Chain Partnership and TCF 2000 Development Program will help the industries in any significant way, particularly given the sunset date in less than three years time, such programs are generally highly valued by TCF companies. In fact, a number of South Australian companies have submitted requests for funding through the Commonwealth’s TCF 2000 Development Package, totalling $600 000. (sub. 132, p. 6)

Several participants commented on a perceived need for government assistance to develop management skills:

... [T]here’s a role to ensure that those parts [of the TCF industries] that aren’t internationally competitive, get some help to make them that way, instead of simply throwing them on the scrap heap. Why not work with them much more closely, particularly in improving management skills and giving them an opportunity to compete based on the characteristics of those that are already there. (Australian Business Chamber, DR trans., p. 58)

The TCF Best Practice Program (part of the TCF 2000 Development Strategy, which has begun only recently) was criticised for being too narrow:

It is my view that project-specific programs such as the AusIndustry administered TCF Best Practice Program take a comparatively narrow view because of their very project-specificity. That program most certainly has its merits and the DIST TCF Branch needs to be commended on the administration of the program. In my view, however, the Assessment Criteria need to be applied to all organisations across the TCF industry and an incentive (ie. indirect protection/assistance) be given for organisation-wide Best Practice. (Pinakin Chaubal, sub. 78, p. 2)

The TCF 2000 Benchmarking Project may prove to be a particularly useful tool for firms and industry associations to identify areas of performance weakness and strategies to achieve best practice.

The TCF 2000 Development Strategy does appear to include programs which overlap generally available business programs. The need for separate programs which pursue the same goals is not clear. The Mortimer Review criticised the plethora of business programs currently available:
The review proposes rolling several existing programs into a single adjustment sub-program. This will achieve consistency and clarity in programs, so that all business has access to adjustment assistance provided eligibility criteria are met and productivity targets are achieved. Unlocking the funding captured by several small programs provides the flexibility to transfer funds between strategies as appropriate.

A single program also ensures better client focus. By reducing overlap and offering the same general conditions for support the Government will reduce confusion over what is available and to whom. ... [T]here is a clear overlap between current programs. It is also not clear that separate support for sectors is warranted. (Mortimer 1997, p. 163)

Further, the current TCF 2000 Strategy does not appear to promote innovation explicitly within the TCF industries. As discussed in Chapter 1, innovation would appear to be one of the major factors influencing the future prosperity of the TCF industries in Australia. Indeed, throughout the developed world, innovation appears to be one of the key factors driving successful industries of all kinds.

8.6 Observations on the TCF Development Strategies

Several broad observations can be made about the Industries Development Strategy. These relate to the programs’ appropriateness, their effectiveness, and the efficiency with which they were delivered.

8.6.1 Appropriateness of program goals

The objectives of these programs can be seen as having three elements:

- as a catalyst for change;
- to counteract information deficiencies; and
- to reduce more quickly the industries’ dependence on community support through tariffs, quotas and bounties.

All of the IDS programs were designed to promote change, including rationalisation, restructuring, modernisation, adoption of new management techniques and expansion of capacity. Given the protected, inward-looking nature of the industries at the time, change was required in many firms. However, the additional contribution of these programs in promoting such change is unclear. The reduction in protection to the industries was likely to create powerful incentives for firms to pursue such strategies of their own accord.
Information deficiencies — which can be a form of market failure — provide a rationale for programs such as the Industries Infrastructure Support Program (and the schemes it replaced, such as the Business Management Skills Program and the Export Market Development Program). In general, industry assistance is more likely to be justified where a market failure exists and where government intervention can create better outcomes in a cost-effective manner (see discussion in Chapter 10).

The task of coping with lower protection would require new skills from the TCF industries — more effective management, coherent strategies for change and closer relationships with suppliers and buyers. Owners and managers of firms may not have appreciated the benefits of best practice information and techniques, and so may not have sought them without assistance. However, given the availability of general business extension programs through AusIndustry (formerly NIES) and export assistance through Austrade, it is more difficult to justify such a sector-specific approach.

The goal of reducing firms’ dependence on border protection has both political and economic dimensions. Politically, the government of the day may have considered it more acceptable to combine phased reductions in protection with other ‘positive’ assistance measures. Economically, such assistance may have been designed to improve firms’ capacity to withstand change. With this limited economic objective, assistance such as capital grants was likely to be successful, at least in the short-term. From an economy-wide perspective, however, whether shifting some of the burden of modernisation or rationalisation from firms to taxpayers — including firms elsewhere in the economy — was likely to create net benefits is more questionable.

### 8.6.2 Program effectiveness

The effectiveness of the programs operated by the TCFDA can be judged by how well they achieved their goals (see Section 8.2). Very few firms used the TCFDA grants as an opportunity to rationalise. Those which did rationalise were dominated by the larger recipients — around half of the capital grant expenditure went towards rationalisation. “Revitalisation” appears to have taken the form of upgrading and acquiring capital equipment, which would not necessarily provide a long-term solution to improved international competitiveness. The recent announcement by DuPont, the single largest recipient of capital grant funding, that it is to cease manufacture in Australia of apparel yarns, involving the loss of 160 jobs, is a case in point.
‘Restructuring’ the TCF industries can be interpreted as a movement away from areas in which Australia is unlikely to hold a comparative advantage to concentrate on areas in which Australian firms can operate profitably without protection. The emphasis by the TCFDA on early-stage, capital-intensive TCF production, with smaller grants given to clothing and footwear companies, would appear to have helped to facilitate such a change. However, the highly selective nature of such assistance damaged competitors that did not receive assistance — a form of restructuring, but one not explicitly intended by the TCFDA. Adjusting to a more competitive environment would have required some rationalisation of industry capacity in several sectors. It is not clear that selective grant assistance is the most efficient way of inducing such change.

Given the limited information available, it is very difficult to determine whether the TCFDA schemes have been effective in improving firms’ efficiency and international competitiveness. While it is known that only three grant recipients went into liquidation during their contract period, no other consistent data are publicly available to measure efficiency or international competitiveness. This reflects a weakness in the monitoring process, which was focussed on compliance monitoring rather than on program evaluation.

To some extent, efficiency and international competitiveness can be measured by the success of the programs in reducing recipients’ dependence on Government assistance. Many grant recipients stated that they are dependent on other forms of assistance, such as the ICS or tariffs. Indeed, most participants have indicated that they require a temporary increase in effective assistance after 2000 in order to survive. This suggests that while grants can improve firms’ competitiveness in the short term, fundamental production cost relativities between Australia and other countries and the quality of Australian management and workplace practices will continue to determine long-term viability.

**Employment maintenance**

The TCFDA’s goals did not include employment maintenance. Maintaining pre-existing employment levels and striving for international competitiveness are not always compatible goals for individual companies. Several participants’ programs involved substantial job shedding, yet the remaining employees’ positions may be more secure as a result of such rationalisation. During this inquiry, several participants have argued for further support for TCF companies on the grounds that it is necessary to preserve employment. Based on prior experience, it would appear very difficult to design assistance measures which guarantee to preserve employment levels while striving for improved productivity.


**Clarity of goals**

The effectiveness of some individual programs may have been hindered by the fact that their objectives were not clear. The most striking example of a lack of clarity in objectives is in the Infrastructure Support Program. The TCFDA stated that:

> The aim of the Infrastructure Support Program ... is to coordinate and improve infrastructure support to the TCF industries. The Authority’s strategy for achieving this aim is the provision of special purpose funding to the National Industry Extension Service and direct assistance to projects which improve the provision of infrastructure support to the industries. (TCFDA 1992, p. 13)

‘Infrastructure’ is not defined and priorities for improved infrastructure are not stated. The result of this fuzzy objective, as noted above, was a large number of disconnected grants, few of which appear to have made a difference to the competitiveness of the industries today. Werner International was particularly critical of this program:

> This program has not been deployed with any unifying theme or with any pre-stated objectives or targets. Certainly the administration of these projects was in much more confusion than that for the capital projects. ... An opportunity to lay some good foundations and to set some useful precedents in terms of industry commitment has been lost with this program. (Werner International 1994, p. vii.8)

Some other programs had clearer goals. The primary goal of the Further Wool Processing Program was stated very clearly as “facilitating an increase in the percentage of Australia’s wool clip which is processed past the scouring stage in Australia to provide inputs to both domestic and international worsted spinning industries” (TCFDA 1992, p. 2). This program was effective in achieving this goal, but has not been free of criticism, as noted above.

**FINDING**

The TCFDA programs have been effective, to some extent, in facilitating the restructuring of the industries towards activities in which Australia would appear to hold a comparative advantage. However, the programs do not appear to have been effective in eliminating the majority of recipients’ dependence on ongoing government support, and have had some unwelcome side-effects. The lack of clarity of some program goals appears to have limited their effectiveness.

**8.6.3 Efficiency of administration**

Several areas relating to the administrative efficiency of the TCFDA programs could have been improved, including transparency, compliance and administration costs, and timeliness.
Transparency

Transparency is important for a number of reasons. First, it is good public policy to tell taxpayers where their money is being spent. This increases the pressure on administrators to administer programs well. On this criterion, the administration of the TCFDA programs performs relatively well. For the major grant schemes, the names of recipient companies, the amounts received and a brief description of the purpose of the assistance are reported in TCFDA annual reports. The administrators of the TCF 2000 programs (the TCF Unit within DIST) should continue the practice of publishing participants’ names, amounts of money involved and the purpose of the assistance when these programs are operational.

However, detailed information about program performance is not publicly available. The contracts signed by companies when receiving a grant are labelled ‘commercial in confidence’, and secrecy over all information given ‘in confidence’ is protected by legislation (the Textiles, Clothing and Footwear Development Authority Act 1988, s.58). This protection extends to individual company performance after receiving assistance, with the exception of listed public companies.

More general information about the effectiveness of the programs as a package does not appear to have been collated or publicly reported in any systematic manner. This greatly reduces the capacity to identify the effectiveness of these programs and to draw lessons for shaping existing and future programs across all industry areas. This is despite the large amounts of information submitted by companies as part of the monitoring process.

Besides being transparent to taxpayers, programs should be transparent also to applicants. This means that the eligibility criteria, the selection process and the performance subsequently required should be readily understandable by a potential participant. On this criterion, the grant programs administered by the TCFDA perform less well.

The main problems stem from the fact that the schemes were discretionary. Even if the eligibility criteria had been clearer, the fact that not all eligible companies were guaranteed funding ensured that certainty and transparency would suffer. Several participants criticised the discretionary nature of the schemes. Some were disappointed by the amount of lobbying that they perceived to be required:

Un fortunately, I believe that a lot of the grants given to industry (certainly in the textile dyeing and finishing field) have gone to the companies that have known how to play the best politics. (Stephen Gercovich, sub. 38, p. 10)
Finding

While publishing participants’ names and the amount of assistance granted to each recipient increased the transparency and accountability of these programs, this could have been improved by making publicly available more information about the agreements signed by individual companies and their performance against agreed indicators. Program evaluation also should have been undertaken.

Compliance and administration costs

Bids for TCFDA grants were required to contain substantial amounts of information. For example, the guidelines for the main grants program, the Incentives for International Competitiveness, stated that firms were initially to submit an application form and a business plan or project summary to the TCFDA, together with any additional information about the project. If the proposal was to be pursued, the TCFDA employed an independent financial consultant to assist it to undertake a financial review of the company and the project (for grants over $50,000). Audited accounts were required, and if these were unavailable, the consultant would undertake a selective audit. In addition, for grants over $250,000, a full financial audit was conducted by the appointed consultants. Other documents required before a grant was approved were forecasts of balance sheets, profit and loss statements and cash flows for the next two to three financial years, a chart of management structure, income tax returns and assessments for the previous three years, statements by the company on outstanding tax or legal claims, calculation of the internal rate of return on the project and supporting documentation, and an employee management plan. These requirements seem reasonable considering the TCFDA’s goal of promoting only viable companies. However, they highlight the compliance costs involved.

Werner International (1994) noted that a large proportion of the funds allocated under the Industries Infrastructure Support Program through NIES was spent on consultants to assist in the preparation of bids for capital grants. The TCFDA itself spent more than $2 million on consultants to help assess the applications it received for the Incentives for International Competitiveness Program alone.

Once a grant was approved, firms were required to submit further information for monitoring in quarterly and six-monthly reports. Such monitoring is useful where it is used to detect flaws in program design, monitor program effectiveness and to eliminate non-compliance with program rules. However, monitoring in this case appears to have been under-utilised — it seems to have been used only for compliance purposes. The ANAO reviewed the operations of the TCFDA in a preliminary study in 1994 and concluded:
The ANAO found that overall the grants were being well monitored and satisfactory results were obtained, although monitoring may be more efficient if risk management principles were applied. For example, TCFDA monitoring does not take account of the size of the grant, the associated risks or the sensitivity of the assistance provided. (ANAO 1994, p. 50)

The complexity of the selection processes for the grant schemes may be contrasted with the relative simplicity of the Import Credit Scheme:

In terms of eligibility and assessment, lessons from the bounty and ICS schemes are that it should be simple to account for and claim ... (Rocklea Spinning Mills, sub. 50, p. 9)

This was echoed by the Carpet Institute of Australia:

Industry participation in the Import Credits Scheme and Bounty Capitalisation Program has been more broad based reflecting the statutory and open structures of these programs. These types of programs are preferred by industry because they are based on self-selection, they are less discriminatory and they are low cost — for firms and Governments. (sub. 120, p. 5.4)

The importance of administrative simplicity was highlighted by the Mortimer Review:

The processes faced by business in applying for support need simplification. Businesses currently devote substantial resources, and may even engage consultants, to establish their eligibility for a particular business program. The Review advocates that programs have clear eligibility criteria and that firms be able to readily determine their eligibility. (Mortimer 1997, p. 74)

An area related to compliance costs is the amount of effort required by firms to acquire information about current programs. In this respect, the administration of the TCF 2000 Development Strategy appears to be performing badly. Partly a victim of timing, not all of the programs initially announced as part of the strategy have been pursued by the Howard Government. The period between the announcement of the election and several months into the new Government’s term appears to have been something of an information void. The Australian Chamber of Manufactures’ members reported in a survey that there was a significant problem in finding information about the currently available programs (sub. 87, p. 14).

Banksia Embroidery stated that in March 1996 it obtained a booklet outlining assistance from the Commonwealth Government for the TCF industries, dated January 1996. The number to phone for further information proved to be unhelpful (the person answering the call had not heard of the booklet) and numerous other numbers were tried without success:

Finally I was told that I should forget it anyway as the election was near and the whole thing will be held in abeyance while the election takes place and policies
change etc. The booklet in effect which no doubt took a great deal of money and
time to produce will in effect be irrelevant. ...

Such programs as those in the booklet are attractive and would serve the purpose,
however, how do we use them when no one knows about them or even the
booklet which outlines such things? (sub. 127, p. 8)

Finding

Compliance and administration costs appear to have been high for the programs
administered by the TCFDA. Information flows to industry regarding the current TCF
2000 package could be improved.

Timeliness

There is some evidence that the TCFDA’s grant administration could have been
conducted in a more timely manner. The ANAO examined five successful and
five unsuccessful grant applications from 1991-92 and 1992-93. Despite the
fact that the guidelines for the main grant program (the Incentives for
International Competitiveness) stated that grant applications for over $250 000
would take around four months to be processed, the average processing time
from the date of application to the date of the letter of offer or rejection was
9.5 months. If an outlying case of 31 months is removed, the average time was
7.1 months (ANAO 1994, p. 50).

8.7 General Commonwealth assistance

As in other industries, TCF firms also receive assistance from generally
available Commonwealth programs to promote research and development,
exports and improved management practices. This assistance is administered by
AusIndustry and Austrade. As noted in Chapter 1, the TCF industries receive
little R&D assistance.

Not all Commonwealth budgetary assistance to the TCF industries is readily
quantifiable. For example, the CSIRO contributes $9.8 million of its own
annual budget towards its Division of Wool Technology. Research and
development undertaken in this division, such as work in early-stage processing
of wool, directly affects TCF firms, although assigning an exact value to the
assistance is difficult.

Several participants stated that these general programs were valuable. For
example, the Carpet Institute of Australia stated:

The Export Market Development Grants Program, the Export Finance Insurance
Corporation, ITES [International Trade Enhancement Scheme], and market
intelligence and other extension services provided by the Australian Trade
Commission have all been extremely important resources for the carpet industry. It is a major concern to see these programs under severe Budgetary pressure given the problems Australia faces as an exporting nation. (sub. 120, p. 6.11)

However, the eligibility rules for general programs mean that not all TCF firms are able to participate. For example, Clarks Shoes Australia stated:

While Governments at state and federal levels have provided grants and assistance to the industry the funds are not equally available to all operators. Clarks for example, is not eligible for Export Market Development Grants because its turnover exceeds $50 million pa. (sub. 80, p. 5)

Table 8.10: TCF recipients of general Commonwealth budgetary assistance, 1995-96

<table>
<thead>
<tr>
<th>Program</th>
<th>TCF</th>
<th>Total</th>
<th>TCF $ as</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Value</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td>(No.)</td>
<td>($m)</td>
<td>(No.)</td>
</tr>
<tr>
<td>Enterprise Improvement Program&lt;sup&gt;a&lt;/sup&gt;</td>
<td>506</td>
<td>4.67</td>
<td>4 855</td>
</tr>
<tr>
<td>Business Networks Program</td>
<td>na</td>
<td>0.12</td>
<td>na</td>
</tr>
<tr>
<td>150% Tax Incentive for R&amp;ampD&lt;sup&gt;b&lt;/sup&gt;&lt;sup&gt;c&lt;/sup&gt;&lt;sup&gt;d&lt;/sup&gt;</td>
<td>49</td>
<td>6.00</td>
<td>3 640</td>
</tr>
<tr>
<td>Competitive Grants Scheme</td>
<td>na</td>
<td>1.64</td>
<td>na</td>
</tr>
<tr>
<td>Concessional Loans Program</td>
<td>na</td>
<td>0.56</td>
<td>na</td>
</tr>
<tr>
<td>Technology Access Program&lt;sup&gt;e&lt;/sup&gt;</td>
<td>1</td>
<td>0.05</td>
<td>na</td>
</tr>
<tr>
<td>Export Market Development Grants&lt;sup&gt;b&lt;/sup&gt;</td>
<td>137</td>
<td>8.60</td>
<td>na</td>
</tr>
<tr>
<td>International Trade Enhancement Scheme&lt;sup&gt;e&lt;/sup&gt;</td>
<td>5</td>
<td>1.29</td>
<td>95</td>
</tr>
<tr>
<td>Innovative Agricultural Marketing Program&lt;sup&gt;e&lt;/sup&gt;</td>
<td>5</td>
<td>0.22</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>703</td>
<td>23.15</td>
<td>8 660</td>
</tr>
</tbody>
</table>

<sup>na</sup> Not available.

<sup>a</sup> This figure includes Commonwealth and State funds. The total is not for all States. Jurisdictions accounted for are NSW, QLD, SA, and TAS. Information was not provided by VIC and WA.

<sup>b</sup> 1994–95 figures.

<sup>c</sup> Dollar amounts are the nominal subsidy equivalent and assume that all claimants paid a company tax rate of 33% and had sufficient profits to be paying tax.

<sup>d</sup> The 150% tax concession was changed to a 125% concession in August 1996.

<sup>e</sup> This program was terminated in the 1996-97 federal budget.


Similarly, BTR Kennon argued that despite being an operating entity in its own right, being part of the larger BTR Nylex group means that the company is unable to use the scheme (sub. 91, p. 3).
8.8 State and local government assistance

Most State government assistance to TCF firms is channelled through AusIndustry services. These services are generally available to all industries, although assistance is targeted to small and medium-sized enterprises (with a turnover of $500,000 to $30 million). However, State and Territory governments also offer assistance in other ways, such as direct financial grants, equity funding, low interest loans and payroll tax exemptions. More detail and a discussion of relevant issues is contained in IC (1996e).

The Tasmanian Government currently has about $20 million invested in TCF companies. Loans were provided to firms which could not secure funds from the financial markets for restructuring and relocation. Loans are made at a ‘commercial rate’ and the default rate for loans is currently less than 2 per cent. The current policy is to reduce the amount on loan. However, as a result of previous policies, the Tasmanian Government holds equity in some TCF companies. In others, they own factory buildings which are provided to TCF companies. For example, Australian Weaving Mills currently leases its purpose-built weaving house from the Tasmanian Government.

The New South Wales Government has provided AusIndustry/NIES assistance to 460 TCF businesses, totalling $4.37 million. A significant number of those businesses received two or more offers of assistance (sub. 162, p. 5).

The New South Wales Government stated:

- The primary focus of assistance offered to industry generally by the New South Wales Government is non-financial in terms of project facilitation aimed at streamlining and reducing delays in government decision making processes (for example, project approvals, licences required to get a proposal underway etc).

- On the other hand, the New South Wales Government provides financial assistance on a case by case basis where it has been considered necessary to attract and/or retain new investment and employment in NSW and develop export business opportunities. (sub. 162, p. 5)

Financial assistance provided by the New South Wales Government to the TCF sector over the past seven years amounted to around $9.6 million, which represented 7.3 per cent of total financial assistance ($133 million) provided by the Government to all industry sectors over the same period:

- Whilst this level of assistance is higher than the proportion of the TCF sector relative to the size of the state economy, it is considered that the TCF industries have warranted this level of assistance. This is given the extent and impact of the transformation and restructuring of the TCF industries, particularly in regional New South Wales. In the latter regard, over 76 per cent ($7.3 million) of financial assistance to the TCF firms has gone to regional NSW. In terms of
outcomes, the financial assistance over the seven year period has helped to attract/secure investments of $134 million ... (sub. 162, p. 5)

Several firms appear to have benefited from both State and Commonwealth assistance measures. For example, in addition to a $6 million grant from the Commonwealth Government under the Incentives for International Competitiveness Scheme, Leading Synthetics also received an undisclosed sum from the Victorian Government for the same $90 million investment. Similarly, Geelong Wool Combing was a major recipient of Commonwealth Government assistance, as well as receiving Victorian Government assistance.

The Victorian Government declined to provide details of its assistance to TCF industries, even in aggregated form. As the Commission noted in its Draft Report on State, Territory and Local Government Assistance to Industry:

> Where government processes are conducted in secret, there will always be a danger of fostering the perception that ‘deals are being done’, whether or not this is the case in reality. To remove these perceptions and enable a government to be held accountable (an essential feature of good government in a democratic society), it is desirable to carry out the processes of government in an open and transparent manner. (IC 1996e, p. 64)

It appears that previous State Government policies of decentralisation may have played a role in encouraging firms to locate in regional areas, as noted by the parliamentary Labor Party (Victorian Branch):

> A lot of these employees’ industries ... are only there in provincial Victoria, country Victoria, because of government incentives, government cost reductions. If you look at the decentralisation policies of previous governments under Murray Byrne as the then State Development Minister the payroll tax exemptions and other benefits largely drove investment into these regions. Now, they had to cope with those incentives going off; they're no longer there. So they have to cope with increased communications costs, increased transport costs. They don't have that cost benefit any more. So they had to make that adjustment and still be productive. (DR trans., p. 151)

Local governments also offer firms assistance to locate in their jurisdictions. For example, Riverside Textiles stated that it received assistance from the Delatite Shire Council in the form of land rate reductions and waiver of building permit fees (sub. 112, p. 29). The Council also assisted the Striker Sportswear enterprise (sub. 74, p. 1).

The Commission has observed several instances in which firms have been encouraged by local and State governments to locate in areas which later have proved unsustainable. As noted in Chapters 1 and 4, as the industry relocates, the departure from non-metropolitan regional areas can cause significant adjustment difficulties. When Government incentives bring an enterprise to a
region, the community adjusts and complex webs of dependency arise. When the value of the incentives declines, firms may move to a new location, leaving the region to cope with the change in circumstances. While such assistance may benefit the region in the short to medium term, it may lead ultimately to serious adjustment problems.
9 THE IMPORT CREDIT SCHEME

The Import Credit Scheme (ICS) commenced in July 1991 as part of a larger package of tariff and other reforms. The ICS was introduced as a temporary measure to encourage TCF exports and is scheduled to terminate on 30 June 2000.¹ Recent actions by the US have highlighted the vulnerability of the Scheme to challenge under World Trade Organization (WTO) rules, and have underscored its temporary status. The rate at which benefits accrue under the ICS is structured to decline over the remaining years prior to its termination.

Although the ICS is scheduled to end in 2000, many participants argued for its replacement with a similar program. This chapter examines the operation and effects of the current Scheme, and lessons for the future.

9.1 Objectives of the Scheme

The ICS provides exporters of eligible TCF products with credits which can be used to reduce the amount of customs duty payable on eligible TCF imports. Like the Export Facilitation Scheme available to the passenger motor vehicle industry, the intent of the ICS was to encourage TCF manufacturers to concentrate on areas of comparative advantage.

The ICS created an incentive to export, by effectively subsidising overseas purchases of Australian TCF products. Overseas buyers of Australian products upon which credits have been earned are better off to the extent that they are able to buy these products more cheaply than otherwise would be the case. However, it is likely most of the benefit accrues to Australian exporters.

Despite the incentive effects, the primary stated objective of the Scheme was not to subsidise exports. Rather, its aim was to achieve a closer integration with the global industry by making the industries more trade-oriented and capable of taking advantage of overseas opportunities. This objective was made explicit by the Government when announcing the package of reforms in 1991.

Along with the other changes to assistance arrangements, the ICS was intended to:

¹ Claims for import credits will be accepted by the Australian Customs Service (ACS) up to 30 June 2001.
... lead to larger, more export-oriented textile and tanning industries and smaller clothing and footwear industries capable of producing better products at competitive prices. (Hawke et. al. 1991, p. 3.10)

How successful the Scheme has been in achieving these objectives is addressed in Section 9.4.

9.2 Operation of the Scheme

Under the Scheme, companies are provided with ‘import credits’ in return for exports of eligible TCF products. These credits, which are freely tradeable, can be used to reduce customs duty payable on eligible TCF imports. (The range of ‘eligible’ products under the Scheme is described later in this chapter.)

![Figure 9.1: ICS credits issued 1991-92 to 1995-96, ($1994-95)](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Credits ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>40</td>
</tr>
<tr>
<td>1992-93</td>
<td>80</td>
</tr>
<tr>
<td>1993-94</td>
<td>120</td>
</tr>
<tr>
<td>1994-95</td>
<td>140</td>
</tr>
<tr>
<td>1995-96</td>
<td>130</td>
</tr>
</tbody>
</table>

Note: Over this period, import credits were earned at 30 per cent of the Australian value added content of eligible TCF exports.

Source: Estimates based on unpublished Australian Customs Service data

9.2.1 Use

Use of the Scheme grew quickly in the early years of its operation. Between 1991-92 and 1994-95, the value of credits issued increased fourfold to more than $130 million (see Figure 9.1). There was a small decrease in 1995-96, mainly reflecting the exclusion of ‘wet blue’ hides from Scheme eligibility —
‘pre-tanned leather’ had accounted for $26 million of credits issued in the preceding year.

Almost 80 per cent of the total value of credits over the period to 1995-96 have been earned on textiles and leather, which account for a much smaller proportion of total value added in the TCF sector (Table 9.1). Apparel products accounted for a smaller share, significantly less than their share of total domestic output. In other words, there seems no close relationship between domestic output and export performance. Some sections of the TCF industries are better placed than others to compete in export markets.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather/fur skins</td>
<td>16.7</td>
<td>28.2</td>
<td>38.5</td>
<td>47.6</td>
<td>29.3</td>
<td>160.2</td>
<td>33.3</td>
</tr>
<tr>
<td>Textiles</td>
<td>8.4</td>
<td>29.3</td>
<td>44.9</td>
<td>55.5</td>
<td>70.3</td>
<td>208.5</td>
<td>43.4</td>
</tr>
<tr>
<td>Apparel</td>
<td>5.7</td>
<td>11.7</td>
<td>14.3</td>
<td>19.5</td>
<td>23.2</td>
<td>74.5</td>
<td>15.5</td>
</tr>
<tr>
<td>Clothing accessories &amp; headgear</td>
<td>0.4</td>
<td>3.9</td>
<td>4.7</td>
<td>2.6</td>
<td>2.7</td>
<td>14.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Footwear</td>
<td>2.0</td>
<td>3.4</td>
<td>5.2</td>
<td>6.7</td>
<td>6.1</td>
<td>23.3</td>
<td>4.8</td>
</tr>
<tr>
<td>Total</td>
<td><strong>33.2</strong></td>
<td><strong>76.5</strong></td>
<td><strong>107.6</strong></td>
<td><strong>132.0</strong></td>
<td><strong>131.6</strong></td>
<td><strong>480.8</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Estimates based on unpublished Australian Customs Service data

The bulk of ICS credits have been received by a relatively small number of companies, typically the larger firms in the TCF sector. In 1994-95, 33 recipients, each of which received over $1 million worth of credits, accounted for more than 70 per cent of the total value of credits issued in that year.

The total value of credits issued is considerably less than the total duty paid on TCF imports. In aggregate, the total value of credits issued in 1995-96 amounted to about 19 per cent of the total value of tariff revenue from imports of TCF products in that year. For clothing imports, the value of credits used was about 29 per cent of the total value of tariff revenue.

9.2.2 Administrative arrangements

The Scheme’s detailed arrangements are outlined not in legislation but in administrative guidelines published by the Australian Customs Service (ACS), which administers the Scheme. Perhaps as a result of this, there has been a relatively high level of administrative discretion, and a lack of extensive monitoring. Accordingly, information on some aspects of the Scheme, such as company use of credits, is not available.
Phasing arrangement

Under the Scheme, import credits are earned at a percentage rate of the Australian value added content of TCF exports. This percentage rate, called the ‘value added multiple’, was at 30 per cent from 1991 to 1997. In 1997 it dropped to 25 per cent and is scheduled to be phased down to 15 per cent by the year 1999-2000 (see Table 9.2). The total cost of the Scheme to the Government, in terms of duty revenue forgone, is likely to decline over the next few years as a result of this phasing arrangement, although this will depend on the level of eligible exports (discussed below).

The current level of the value added multiple is considerably higher than the effective rate of assistance (that is, the assistance to value added) afforded by tariffs to most TCF exporting activities.

Table 9.2: Scheduled value added multiple 1994 to 2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple</td>
<td>0.30</td>
<td>0.30</td>
<td>0.30</td>
<td>0.25</td>
<td>0.25</td>
<td>0.20</td>
<td>0.15</td>
</tr>
</tbody>
</table>

Source: ACS 1995
The ICS and TCF exports in 2000

Most companies which received credits under the ICS have argued that the phasing out of the scheme will have a significant adverse effect on Australia’s TCF export performance. The Commission agrees that it is likely that, all other things being equal, exports would be lower without the ICS. How much lower is difficult to assess, as there are a range of factors that will affect the level of TCF exports in the future, even over the period to 2000. It should also be recognised that higher levels of exports per se are not of intrinsic benefit to the community.

Australia’s much reduced and relatively low inflation rate should give a more predictable base for exporters, including TCF exporters. The medium-term benefits of increased efficiency in the TCF sector as a result of the scheduled tariff reductions to 2000 are also likely to be a factor encouraging exports. In addition, to the extent that the ICS has been successful in fostering an export culture, the level of exports may continue to increase or at least be maintained around the current level.

The ‘upper bound’ estimate of the value of the scheme by 2000 assumes that eligible exports increase at the same rate as has been observed over the first five years of the scheme. This implies that eligible exports in 2000 could approach $3 billion. With the reduction in the phasing rate, the cost of the ICS in that year would be similar to that in 1995-96 — around $130 million (1994-95 dollars).

A more conservative estimate of the increase in exports of 4 per cent per year has been forecast in the MONASH model. This would imply a cost in 2000 of around $80 million (1994-95 dollars).

Value added calculation

Credits are issued to exporters by the ACS and may be used to offset customs duty on imported eligible TCF products on a dollar for dollar basis. To reduce administration costs, the ACS developed a set of standard rates of value added which automatically apply in calculating credit entitlements for categories of exports. These range from 20 per cent of free-on-board export value for products with relatively low value added, to 90 per cent for high value added

---

2 The Commission’s modelling considered the future growth in exports for this sector. The Commission considered two different scenarios for export growth rates in the future. Based on past export performance, one scenario assumed a continuation of the high rates of export volume growth observed over the period 1986-87 to 1993-94. The other scenario assumed a more conservative rate of growth for exports.
products. It is unclear on what basis these standard value added rates were derived, or whether they are a reasonably good approximation of the actual value added across product categories. On the basis of confidential material provided to the Commission, it appears that these rates may be overly generous in some cases.

Trading arrangements

Credits are tradeable and information provided by the ACS indicates that more than 85 per cent of ICS credits are traded either directly or through brokers. Broking agencies buy credits and sell them to retailers and other importers. The Commission has been told by several participants that credits typically trade at very small discounts (often 3 to 5 per cent), although comprehensive information is not available. This implies that nearly all the benefit accrues to exporters rather than importers or consumers of imported products. The discount may be larger where brokers provide administrative services to exporters wishing to use the Scheme.

Eligibility

Eligibility for the Scheme is limited in various ways: by type of product, country of export destination and the level of companies’ export sales.

The range of ‘eligible’ export products upon which credits can be earned excludes early stage processed natural fibre commodities, such as scoured wool, wool tops and salted hides. In 1995 ‘wet blue’ hide exports also were excluded from the Scheme. The effect of this change on the leather industry is discussed in Section 9.3. These exclusions reflect a desire to limit the Scheme to significant value-adding activity. In 1996, automotive leather was excluded as a consequence of threatened action by the US (see Box 9.1).

Exports to New Zealand are excluded from the Scheme, under the terms of the bilateral Australian and New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) which allows for free trade between the two countries. In contrast, exports to Pacific Forum Island countries are eligible for credits despite the existence of the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), a trading agreement which allows for duty-free import of products from Forum Island countries to Australia. This has created incentives for some companies to utilise Fiji in particular for offshore processing. The effects of this arrangement are examined further in Section 9.3.
Box 9.1: The Howe Leather case

The company

Howe Leather is an Australian manufacturer of leather for car seats. It exports leather to Mexico (earning import credits) where it is cut into shape ready for sale to US automotive component suppliers. The company is now owned by Australian Leather Holdings.

The action

On 19 August 1996, US leather manufacturers petitioned the US Trade Representative to take action against what they claimed were ‘Australian leather export subsidies’. The petition alleged that the Howe Leather company was utilising the benefits of several industry programs, particularly the Import Credit Scheme, to undercut local producers of leather for automotive seat covers for the US market.

The petition asked that action be progressed under US domestic trade law (the Trade Act 1974), either as a s301(a) violation of various provisions contained in a number of WTO trade agreements or under s301(b) whereby the Australian actions are alleged to have “substantially burdened and restricted US commerce”.

Following discussions between the Australian and US Governments, an agreement was reached. A joint statement issued by the US Trade Representative and the Australian Minister for Trade stated “We have reached a satisfactory settlement of the dispute over automotive leather ... Australia has agreed to excise automotive leather from eligibility under the Import Credit Scheme and the Export Facilitation Scheme.” (USTR 1996).

The 1997-98 Commonwealth Budget Papers note:

- A package of alternative assistance to ALH was approved in February 1997 ...
- The package includes grant assistance ... along with the provision of a 15 year loan of $25 million which is to be repaid with interest. (Costello 1997, pp. 94–95)

To be eligible for the Scheme, a firm’s exports must total at least $100 000 over a consecutive two year period. In discussion, the ACS indicated that this threshold was introduced to contain the administrative costs of the Scheme. Some participants argued that the threshold adversely affected small business exporters and other firms seeking to build up an export market. In response to a survey conducted by the Australian Chamber of Manufactures (ACM), some firms suggested relaxation of this requirement (sub. 87, p. 14).
9.3 Effects of the Scheme

The Scheme has proven to be very popular with industry and has provided a number of benefits to participating companies. It also has imposed costs on other parts of TCF activity, and on the economy as a whole. The benefits and costs for companies, for the TCF industries as a whole and for the allocation of the community’s resources are considered below.

9.3.1 Effects on TCF companies

Participating TCF companies, and in some cases their suppliers and customers, have benefited from the Scheme.

Benefits

The Scheme has strong support from industry participants. Many emphasised its success in awakening TCF manufacturers to the potential opportunities of exporting and helping to change attitudes within the industry. Others stressed the importance of the Scheme in underpinning efforts to sell in export markets.

The support for the Scheme is illustrated by the results of a survey conducted by ACM of 156 of their members within TCF industries in December 1996:

Over 80 per cent of firms surveyed stated that they support the continuation of the Import Credit Scheme. These firms either anticipate using the scheme in the near future, see the relevance of it to their future priorities or benefit from trading in credits. (ACM, sub. 87, p. 14)

Clarks Shoes’ comments were typical of many participants:

The Import Credit Scheme has been of critical importance in encouraging the development of export markets for Australian TCF companies. (sub. 212, p. 5)

Norman Ritchie argued that the Scheme had been a success:

The import credit scheme is a success and it has created jobs and export earnings. It achieved its aim in encouraging export of our TCF products. Our TCF industry is now more outward looking and export driven. (sub. 220, p. 6)

Participants have stated that the benefits obtained by exporters from the Scheme have been used in a variety of ways, including to cover marketing costs, upgrade equipment and invest in product development. Many companies indicated that establishing export markets requires long lead times and considerable up-front marketing effort and cost. Earnings from the Scheme have enabled them to cover the costs of establishing export markets. For example:

To achieve a satisfactory return on export marketing expense requires a long time frame. The measures available under the import credit scheme are an essential
part of our ability to meet our required sales targets and obtain the returns. (BTR
Kennon, sub. 91, p. 3)

ICS credit earnings have been used by many companies to upgrade their capital
equipment and expand capacity. For example, Australian Leather Holdings
indicated in its submission that the ICS had:

... allowed ALH to accelerate investment in state-of-art technology eg computer
controlled drums, automated water and chemical dosing systems, high
technology waste water treatment systems, [and] laser cutting machines for auto
components. (sub. 140, p. 27)

Other companies stated that credits helped them overcome the disincentives of a
history of tariff protection:

... positive support is helping with the risks of exporting ... The incentive is badly
needed and used for process development, capital purchases of world class
equipment and investment in clean technology. ... The tariffs have in the past
sheltered and protected and have been a disincentive to modernise an
unbelievably old fashioned and inefficient industry. (Exclusive Fleece, sub. 171,
p. 2)

By providing more viable access to export markets, the ICS also has enabled
some companies to achieve scale economies. As Bradmill Undare, one of the
largest credit earners, indicated:

Our ability to export is contingent on the existence of the ICS ... Without a strong
viable export component our business will decrease, leading to increased costs,
leading to fewer orders ... and so the downward spiral would continue until the
extinction of our business within a relatively short space of time. (sub. 47, p. 2)

Bradmill Undare also stated that this dependence was caused partly by
reductions in other forms of assistance:

The reason that a number of companies are still dependent on the ICS scheme is that
export business has not yet developed to the point where it is capable of substituting for
the loss of domestic markets as a result of the cuts in the tariff. (sub. 198, p. 3)

Not all the benefits derived from the Scheme accrue to exporting companies and
their employees. Some may be passed on by exporters through market
interactions to suppliers, customers and importers. Suppliers to exporting
companies in some areas have benefited from expanded demand for their
output. For example, there is some evidence that hide suppliers benefited from
increased prices arising from the expanded demand for hides as a result of the
Scheme (see below). Overseas buyers of Australian products upon which
credits have been earned are better off to the extent that they are able to buy
these products more cheaply than otherwise would be the case. The extent of
their gain is uncertain and has been the basis for challenge in the US under
WTO rules (see Box 9.1).
As most credits are traded at close to their full value, importing companies purchasing credits and/or consumers appear to receive only a marginal benefit. Accordingly, it is unlikely that the Scheme has put much competitive pressure on import-competing activities. Increased profitability of exporting may have encouraged some companies to reduce supplies to the domestic market, putting some upward pressure on domestic prices. In some cases it is possible that this could have been offset in part, or entirely, by the effect of economies of scale yielded by exports.

**Costs**

The Scheme is not entirely beneficial or benign for all TCF companies — for some, it imposes costs.

Because it increases the attractiveness of supplying overseas markets relative to domestic sales, domestic users of intermediate goods have suffered from reduced supplies and higher prices as a result of the Scheme. For example, VHSP (a ‘wet blue’ hide producer) argued that the Scheme resulted in increased domestic raw hide prices, increasing their material costs:

> ... any subsidy to the producers of finished leather products would lead to an increased demand for raw hides, and hence to increased prices for raw hides. The ... effects of the ICS are particularly severe ... because ... cattle hides are relatively price inelastic to the industry. (sub. 29, p. 6)

The Federated Tanners Association (now the Australian Leather Industries Association) did not believe that the ICS affected hide prices:

> The Federated Tanners Association asserts that, ... as commodities in the world market, the price of raw hides and skins fluctuates regularly, and Australian raw hide and skin prices generally follow moves and trends in prices overseas. The Association asserts that no distortion in the price of raw hides and skins will result from the continued operation of the Import Credit Scheme or of any similar scheme which may replace it in the future. (sub. 158, p. 2)

For some clothing and footwear manufacturers, higher prices and reduced supplies from domestic producers have led them to buy imported intermediate goods.

In some cases, the Scheme has encouraged companies to transfer their processing activities offshore to attract ICS credits, adversely affecting domestic employment. Of course, it may be argued that in the absence of the ICS, companies may have undertaken all their production offshore, with no Australian value added component, and imported finished products into Australia.
The ICS, in combination with other assistance arrangements such as SPARTECA, can have a considerable impact on local clothing manufacturers. For example, companies may import dutiable fabric in an unfinished state, ‘finish’ the fabric in Australia (for example by printing or dyeing it), then re-export the fabric to a SPARTECA country such as Fiji for assembly. These companies are eligible for duty ‘drawback’ — that is, a refund of the duty paid on the imported fabric. The companies also earn import credits on the Australian value added component of the exports. The companies may then import the finished products to Australia duty-free under SPARTECA. This transfer of production from Australia to offshore locations has encouraged tailoring of company structures — a process reinforced by the desire to attract the ICS credit subsidies.

As one participant noted, the disadvantage to local clothing manufacturers is significant:

... dutiable fabric is imported to Australia in a unfinished state say from China [and] is converted to a printed or dyed state, exported to Fiji, converted into finished product then shipped back to Australia. The disadvantage to the Australian clothing industry is no refund of the duty, no import credit rebate and finally goods from Fiji were imported without a tariff. Is it any wonder Australian manufacturers have given up. (Mark One Apparel, sub. 5, p. 3)

Data on exports to, and imports from, Fiji provide some indication of the extent of this practice. Exports of ‘ICS eligible’ TCF products to Fiji increased from $8 million in 1991-92 to $84 million in 1995-96. More than 86 per cent of these exports are intermediate goods. In aggregate, they accounted for nearly 10 per cent of Australia’s total ICS eligible exports in 1995-96. Imports of clothing accounted for 85 per cent of the $126 million of Australia’s TCF imports from Fiji in 1995-96. In aggregate, TCF imports from Fiji grew by 320 per cent over the four year period to 1995-96. Of Fiji’s total TCF exports, around half are sent to Australia. Of these, 86 per cent are clothing (DFAT correspondence 29 August 1997).

Not all such finished goods are exported from Fiji to Australia. The Apparel and Textile Federation of New Zealand expressed concern about subsidised goods entering their country from Fiji:

Of particular concern to us is the abuse of the Import Credit Scheme through ‘triple dipping’ using Fiji as an export base which enables subsidised goods to enter New Zealand under preference and is in conflict with the intention of CER which does not allow subsidies for Trans Tasman trade. The practice disadvantages industries in both countries and steps should be taken to close this loophole. (sub. 114, p. 3)
According to the Government of Fiji, its TCF exports to New Zealand in 1996 amounted to only $NZ 17 million, compared with total New Zealand imports of such products of more than $NZ 1 billion.

In its draft report, the Commission found that exports to Fiji which are not re-exported to Australia or New Zealand should continue to be eligible under the ICS. However, the Commission considered that it is inappropriate for credits to be earned on goods exported to SPARTECA countries which subsequently are processed and exported duty-free to Australia or New Zealand.

The interaction of the ICS and SPARTECA schemes, along with investment incentives offered by the Fiji Government have encouraged the development of a significant clothing industry in Fiji. The Fiji Government stated:

The import credit scheme enabled manufacturers in Fiji, to use Australian fabrics and leather at internationally competitive prices. This scheme combined with duty free access into Australia enabled Fiji TCF manufacturers a genuine preference into Australia. (sub. 146, p. 8)

Today TCF is a major industry in Fiji. It is also the fastest growing industry in the country. In 1995 the industry contributed 22.4 per cent of the total domestic exports, 9 percent of GDP and employed about 13,000 people, or 14 percent of the total persons in paid employment in Fiji. Australia is a major customer for our TCF products. ... In 1995, approximately 51 percent of the TCF products made in Fiji were sold into Australia. (sub. 146, p. 6)

The scheduled end to the ICS, combined with the gradual reduction in Australian TCF tariffs, will greatly reduce the preference given to SPARTECA countries. The Department of Foreign Affairs and Trade pointed out that:

... the Fiji garment industry is unsustainable in its current form. However, in making policy decisions which may have a severe impact on Fiji’s economy, it needs to be borne in mind that it was the implementation of Australia’s policies under SPARTECA during the 1980s which encouraged that outcome. The impact of the sudden departure of the garment industry from Fiji would be a significant loss in urban employment, with potentially disastrous social, political and bilateral consequences. The negative impact on the bilateral and regional relationship and on our substantial economic interests in Fiji would be severe. (sub. 261, p. 1)

The Australian Government may not have intended the development of a Fiji clothing industry dependent upon the continuation of arrangements designed to assist the Australian TCF industries. However, changes to those arrangements may have significant impact on Fiji.

It is important to strike a balance between the need to address Australian domestic policy issues and the impact of domestic policy on Australia’s trading partners. The Commission considers that although removal of ICS eligibility
for exports that are re-exported to SPARTECA countries would be in Australia’s interest, the consequences to the Fiji clothing industry may outweigh these benefits, particularly as such an arrangement would only apply for a short period of time (until the ICS ends in 2000).

The Commission notes that the recommended expansion of the Overseas Assembly Provisions may assist Fiji to develop a more competitive TCF industry, particularly if concerns over the rules of origin can be addressed.

Finding

The Commission finds that it might not have been appropriate for the Import Credit Scheme to allow credits to be earned on goods exported to SPARTECA countries to be processed before being re-exported duty-free to Australia or New Zealand. However, given the adjustment costs associated with altering the eligibility of such goods and the short period remaining before the Scheme ends, the Commission considers that the current arrangements should remain in place until the ICS concludes in 2000.

9.3.2 Evidence of the effects on TCF industries

As outlined in Chapter 1, TCF industries have become increasingly trade oriented, both in terms of the share of imports in domestic sales and export growth. In addition, there has been considerable rationalisation, labour productivity growth, and many businesses have re-oriented to focus on niche markets. The extent to which the Scheme has provided the impetus for these changes, however, is uncertain.

Export growth

Eligible TCF exports have grown significantly in real terms since the establishment of the Scheme, from $608 million in 1991-92 to $1.3 billion in 1995-96 (at 1994-95 prices). Textile and leather exports have accounted for the majority of this increase. Many participants viewed information on aggregate export trends as an indicator of the success of the Scheme. For example:

The fact that the Import Credit Scheme has worked is demonstrated by the growth in exports since it was first introduced. (TFIA, sub. 66, p. 27)

Undoubtedly, the Scheme has made exporting more profitable. In 1995-96, exporters earned about $1 in credits for every $11 in export sales.

While the Scheme clearly has encouraged export growth, other factors have contributed to the large increases in export sales over the 1990s. As outlined in Chapter 1, declining domestic tariffs, technological developments and enhanced productivity have been significant in improving the competitiveness of TCF
companies in export markets. Exchange rate movements and stronger world economic growth since the early 1990s also have had an influence.

The ACM, while emphasising the importance of the ICS and the need for critical mass in the domestic market, also said that the results of its industry surveys indicated that management was also a key factor underpinning the sector’s export performance:

[export performance] ... has been terrific. ... 5 years ago you wouldn’t have suspected this [growth of] 10 per cent compounded. ... It has come from a variety of sources and the message that we get is that export success is primarily due to the quality of the management. (DR trans., p. 237)

An indication that factors other than the Scheme have influenced export performance is provided by comparing trends in eligible TCF products with other TCF exports. For example, Australia’s TCF exports to New Zealand, on which no credits are earned, have grown at a broadly similar rate to eligible exports over the period of the Scheme’s operation, rising from $161 million in 1991-92 to $365 million in 1995-96. While expanded trade with New Zealand in part reflects the benefits of the CER bilateral trading agreement, it nevertheless indicates that forces other than the ICS have affected export growth. Non-TCF exports have also grown strongly. Over the same period as the ICS, merchandise exports not receiving specific assistance increased by an average of around 6.5 per cent per year (ABS 1997e).

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports eligible for the ICS ($m)</th>
<th>Additional eligible exportsb ($m)</th>
<th>Import credits ($m)</th>
<th>Import credits per additional eligible export (cents per dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>517.0a</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>1991-92</td>
<td>608.3</td>
<td>91.3</td>
<td>33.1</td>
<td>36</td>
</tr>
<tr>
<td>1992-93</td>
<td>763.2</td>
<td>246.2</td>
<td>76.4</td>
<td>31</td>
</tr>
<tr>
<td>1993-94</td>
<td>968.3</td>
<td>451.3</td>
<td>107.6</td>
<td>24</td>
</tr>
<tr>
<td>1994-95</td>
<td>1,199.7</td>
<td>682.7</td>
<td>132.0</td>
<td>19</td>
</tr>
<tr>
<td>1995-96</td>
<td>1,437.0</td>
<td>919.9</td>
<td>131.6</td>
<td>14</td>
</tr>
<tr>
<td>Total 1991-92 to 1995-96</td>
<td>4,976.5</td>
<td>2,300.1</td>
<td>480.8</td>
<td>21</td>
</tr>
</tbody>
</table>

na not applicable.
a This proxy for 1990-91 TCF exports that would have been eligible for the ICS was calculated as: (1990-91 total TCF exports less wool scouring) multiplied by [1991-92 eligible exports divided by (1991-92 total TCF exports less wool scouring)].
b Each year’s eligible exports less the proxy for 1990-91 eligible exports.

Source: Estimates based on unpublished Australian Customs Service data

Over the period 1991-92 to 1995-96, total exports of TCF products that were eligible for the ICS were $2.3 billion greater than they would have been if they had remained constant at their 1990-91 annual level. (see Table 9.3). However, even assuming that all the increase in eligible exports is attributable to the ICS, the additional export income and the output and employment financed by that income has come at some cost in terms of revenue forgone — over $480 million (in import credits). Even under the limiting assumption that all the additional exports were attributable to the ICS, the cost to the taxpayer would have been 21 cents for every dollar of additional eligible exports. This does not include the administration and compliance costs associated with running the ICS. Given the possibility that such exports would have grown without ICS assistance (as they did before the scheme began, and as exports not eligible for the scheme did) the implied cost is probably a substantial underestimate.

The aim of the ICS was to encourage additional exports. Even if all the increase in eligible exports were due to the ICS, some participants received credits for merely continuing to export at the same rate they were exporting before the introduction of the ICS. This is because the ICS applied to all eligible exports, rather than just additional exports. Between 1991-92 and 1995-96, there were additional eligible exports of $2.3 billion, but exports worth $2.9 billion were
claimed. That is, import credits were claimed for 128 per cent of additional eligible exports (see Table 9.4).


<table>
<thead>
<tr>
<th>Year</th>
<th>Exports eligible for the ICS ($m)</th>
<th>Additional eligible exports b ($m)</th>
<th>Exports claimed ($m)</th>
<th>Exports claimed as proportion of additional eligible exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>517.0 a</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>1991-92</td>
<td>608.3</td>
<td>91.3</td>
<td>240.3</td>
<td>263.2</td>
</tr>
<tr>
<td>1992-93</td>
<td>763.2</td>
<td>246.2</td>
<td>484.3</td>
<td>196.7</td>
</tr>
<tr>
<td>1993-94</td>
<td>968.3</td>
<td>451.3</td>
<td>688.4</td>
<td>152.5</td>
</tr>
<tr>
<td>1994-95</td>
<td>1 199.7</td>
<td>682.7</td>
<td>850.6</td>
<td>124.6</td>
</tr>
<tr>
<td>1995-96</td>
<td>1 437.0</td>
<td>919.9</td>
<td>682.6</td>
<td>74.2</td>
</tr>
<tr>
<td>Total 1991-92 to 1995-96</td>
<td>4 976.5</td>
<td>2 300.1</td>
<td>2 946.3</td>
<td>128.1</td>
</tr>
</tbody>
</table>

na not applicable.

a This proxy for 1990-91 TCF exports that would have been eligible for the ICS was calculated as: (1990-91 total TCF exports less wool scouring) multiplied by [1991-92 eligible exports divided by (1991-92 total TCF exports less wool scouring)].

b Each year’s eligible exports less the proxy for 1990-91 eligible exports.

Source: Estimates based on unpublished Australian Customs Service data

For those companies for which the Scheme has been important in encouraging export growth, the sustainability of their export performance in its absence is questionable. Many participants, such as Rocklea Spinning Mills (sub. 50), Bradmill Undare (sub. 198), Riverside Textiles (sub. 112), Godfrey Hirst (sub. 113), and Benalla Spinners and Barwon Spinners (sub. 111), stressed their dependence on ICS credits to make export efforts viable. Other examples include:

Globally, our company has been focusing on development of export markets for our products since 1992 ... after so many years of commitment, our company is just starting to achieve container size export orders. These orders are only achieved by complementing very low margins with assistance from the Import Credit Scheme. Without this assistance, we would not be competitive in overseas markets. (Specialty Coatings (Aust) Pty Ltd, sub. 137, p. 2)

Driza Bone made similar comments:

If this assistance is removed it will, by its nature, mean a serious look at a significant number of manufacturing operations here in Australia. It will not affect manufacturing
for the domestic market but will seriously reduce employment amongst the companies that have been successful overseas. (sub. 16, p. 2)

As did Norman Ritchie fabrics:

... if [the ICS] is not extended ... or some similar arrangement introduced as a replacement, then the newly developed export markets will be difficult to retain. (sub. 21, p. 11)

Similarly, Du Pont (Australia) submitted:

Some of the ICS stimulated exports will be sustainable but TFIA analyses have shown that a significant percentage of this export business will be lost with the removal of ICS. (sub. 99, p. 14)

As the Scheme tapers off, exports which require high levels of assistance could become unprofitable and decrease. For example, exports of ‘wet blue’ hides fell by 14 per cent in 1995-96, the year after they were excluded from the Scheme. However, it should be noted that other factors — including drought conditions — may have contributed to this decline. It is also possible that some hides which otherwise would have been exported in ‘wet blue’ condition were processed further to become eligible for the Scheme.

**Industry restructuring**

For individual exporting companies, there is little doubt that the ICS has assisted efforts to restructure operations. How significant the Scheme has been for the TCF industries as a whole depends on closer integration with the global TCF industry, and on the level and spread of participation across companies and across industries.

An effective strategy for closer integration of the Australian TCF sector with the global TCF industry requires increased specialisation within the sector. This would help to improve the fundamental international competitiveness of Australian producers. They would be able to take advantage of their competitive strengths in particular areas of the TCF supply chain (for example, design, capital-intensive processing of quality fibres into innovative textiles and apparel) and draw on overseas sources of supply in other areas (such as manufacture and assembly of other inputs or products for domestic and export markets). Encouragement of this type of behaviour is claimed by some participants to be a desirable feature of the ICS (or of any viable replacement for it).

While the ICS has served to increase TCF exports, the growth in Australian TCF external trade has occurred in an essentially disconnected manner — except in the few cases of vertically integrated companies which can use the Scheme in a strategic way. It is not obvious, for example, that the clothing
imports financed by ICS credits have any clear direct or indirect supply chain links with the ICS-induced increase in exports of textiles and leather. In other words, the ICS appears to have had limited success in facilitating greater intra-industry specialisation in the TCF sector. (The ICS probably has encouraged some domestic supply chain linkages — for example, between suppliers of hides and exporters of leather products.)

Participation in the Scheme has been reasonably concentrated. The largest 20 companies accounted for just over half of all credits earned since the commencement of the Scheme to 1995-96. Three companies, Textile Industries Australia, Howe Leather and Bradmill Textiles, have earned more than $20 million each in credits. Most companies have not used the Scheme — over the period 1991-92 to 1995-96, import credits were claimed for only 59 per cent of eligible exports (Table 9.4). A possible reason is that many smaller businesses do not meet the eligibility arrangements (although it is also true that TCF exports are dominated by larger companies). By increasing the profitability of particular companies within industries, the Scheme may have contributed to some extent to rationalisation by improving their competitive position relative to those which have not used it. However, this may be neither efficient nor equitable.

As indicated in Section 9.2, participation by industry sector also has been concentrated, with most credits earned from leather and textiles exports. By providing additional assistance to these industries, it is likely that the Scheme contributed to their growth relative to that of clothing and footwear manufacturing. From 1991-92 to 1994-95, output (gross product at factor cost at constant prices) of the leather and textiles industries grew by 4 and 6 per cent, respectively. Clothing and footwear output declined over the same period by 9 and 7 per cent, respectively (unpublished ABS Manufacturing Survey data).

Some participants emphasised the importance of the ICS in driving these changes. For example:

Within most sectors, there has also been considerable rationalisation, so that those companies remaining are in general stronger and better equipped for the future. Many now rely on exports as well as the local market, and the Import Credit Scheme has been critical to this particular shift in emphasis. (The Textile Institute, (SA Section), sub. 119, p. 10)

The most significant effect of the ICS, however, has been in leather manufacturing. ICS credits earned equalled about 46 per cent of leather manufacturing gross output in 1994-95. In this area, the ICS appears to have had some unintended effects on industry structure. The inclusion of ‘wet blue’ hides in the Scheme led to a rapid expansion in capacity in ‘wet blueing’ plants.
to supply export markets. The sudden removal of ‘wet blue’ hides from ICS eligibility in 1995 appears to have resulted in some over-capacity in this area of production as many operations became unprofitable.

9.3.3 Economy-wide effects

The Scheme has raised the overall level of assistance provided to TCF industries, financed by forgone tariff revenue. In doing so, it has increased the overall disparity in assistance levels between TCF companies, within the TCF industries and between TCF industries and other industries in the economy.

The Commission estimates that in 1995-96 the Scheme raised the effective rate of assistance to leather manufacturing to 6.5 times the manufacturing industry average. Similarly, for textiles manufacturing in the same year, the effective rate of assistance was raised to just over four times the manufacturing industry average.

The additional assistance to parts of TCF which already are receiving significant levels of assistance in the form of tariffs imposes economy-wide costs. By enabling production to be maintained in excess of what it otherwise would have been, the Scheme leads to resources being tied up in these industries rather than flowing to other industries which do not receive tariff assistance and therefore use resources more efficiently.

The Scheme also has direct effects on industries which use TCF output in their production. Some participants from the furniture manufacturing industry, for example, complained that they have suffered from reduced domestic supply of fabrics as textile producers supply export markets which have been made more profitable as a result of the Scheme (Furnishing Industry Association, sub. 96, p. 3, and W.E. Young, sub. 31, p. 1).

9.4 The future of the ICS after 2000

The March 1991 Industry Statement made it clear that the ICS was intended to conclude in 2000 (Hawke et al. 1991). Although phasing arrangements were altered in 1992, the end date was not altered (Button 1992). The conclusion of the Scheme will involve a significant reduction in assistance to the beneficiaries. This is inevitable when programs of specific assistance end, though the move from an available benefit based on a 15 per cent value added content of exports in 2000 to zero in the following year is a discrete change. Many participants argued that a replacement of the ICS should be put in place.
when the current Scheme concludes as scheduled, as a means of maintaining the growth in TCF exports and the industries’ outward orientation.

For example, the Victorian Government argued that:

The Victorian Government recognises that the Scheme needs to be WTO legal, but it believes that terminating the Scheme without a replacement will amount to withdrawing an incentive that has encouraged the industries to export and to focus on market segments in which they have a competitive advantage. The re-orientation of the industries to exports is still in progress and is vital for the future viability of the TCF industries. (sub. 265, p. 10)

Norman Ritchie stated:

To maintain the momentum in our export drive, our TCF industry clearly needs the continuing support underpinned by the import credit scheme both up to the year 2000 and beyond. (sub. 220, p. 6)

The possibility of a replacement scheme for the ICS raises three questions:

• would a replacement scheme provide a cost-effective stimulus to exports?
• is it possible to devise a sector-specific program which is permissible under WTO rules? and
• if it were possible, would it be desirable to do so?

9.4.1 A cost-effective stimulus to exports?

It is difficult to assess whether or not a scheme designed to encourage exports is cost-effective. Any scheme that reduced the price of Australian products to overseas consumers can be expected to increase overseas consumption of those products (that is, a subsidy to exporters can be expected to increase exports). However, merely measuring the increase in exports is not a good measure of the effect (or benefit) of the Scheme, as it fails to take into account what would have happened in the absence of the Scheme, or the cost of the Scheme itself.

As discussed in Section 9.3, it is likely that the ICS contributed to the increase in TCF exports between 1991-92 and 1995-96. However, it is also likely that TCF exports would have grown to some degree even without the ICS — TCF exports were already growing rapidly before the ICS was introduced, exports of TCF products not eligible for the ICS also grew over the period, and the rate of export growth appears to have been maintained despite the reduction in the ICS rate of benefit in 1996-97 (although it is too early to make precise comparisons). Exports of other manufactured products not eligible for sectoral assistance also grew rapidly over this period.
Being unable to determine a ‘counter-factual’ case makes it very difficult to determine the cost-effectiveness of schemes such as the ICS. However, even assuming that there would have been no additional eligible exports in the absence of the ICS, these additional exports came at a cost to taxpayers of 21 cents per additional dollar of eligible exports (see Table 9.3). Bearing in mind that this represents the minimum cost, the ICS appears to have been an expensive means of encouraging exports.

Given the difficulties associated with creating a scheme designed to encourage exports which does not infringe WTO rules (see below), it is highly unlikely that a more cost-effective scheme could be developed. For example, it would appear that any sector-specific assistance would have to relate to all production, not just exports, making any such scheme more expensive for a given increase in exports.

### 9.4.2 Is a replacement scheme possible?

The incentive created by the current Scheme to invest in export effort is weakened by uncertainty about its future arising from the recent challenge in the US under WTO rules (see Box 9.1). This is significant in considering the scope and desirability of a replacement for the ICS scheme.

The WTO rules on export subsidies are contained in the WTO Agreement on Subsidies and Countervailing Measures (ASCM). The ASCM defines subsidies, contains criteria for determining whether they have an adverse market effect and provides for remedies where subsidies contravene the ASCM. WTO rules are discussed in more detail in Appendix G.

A subsidy is defined broadly in the ASCM to include direct transfers of funds, forgone revenue and various payments-in-kind, all of which must be specific to an enterprise or industry group. Subsidies are classified under the ASCM into three groups: prohibited, actionable and non-actionable.

Prohibited subsidies are presumed to have an adverse market effect and are therefore treated as illegal *per se* — they include all subsidies which are contingent upon export performance. If an export subsidy is challenged and is subsequently found to be a prohibited subsidy, then the offending country must cease the practice or else the complaining country then has the right to take appropriate countermeasures.

Actionable subsidies are not automatically presumed to have adverse trade effects and are therefore not illegal *per se* under the ASCM. Rather, they are subject to a test, whereby they must be proved to have certain effects according to the various criteria contained in the ASCM. However, if such effects are
proved, then the offending country must cease the practice or face the possibility of WTO-sanctioned countermeasures, in particular, countervailing duties.

Non-actionable subsidies are, as the name suggests, permitted. However, they must be notified in advance to the WTO. The ASCM specifies three broad categories of non-actionable subsidies, with defined limitations on each. They are research, assistance to disadvantaged regions and assistance to promote adaptation to government-imposed environmental regulations.

Although many participants called for a replacement scheme for the ICS, in most cases, the form of replacement scheme was not specified. One exception was the TCF Exporters’ Forum, which suggested an Import Duty Drawback Program.

Import Duty Drawback Program

The TCF Exporters’ Forum (sub. 159) requested that consideration be given to an ‘Import Duty Drawback Program’ to replace the Import Credit Scheme. Under the proposal, exporters would receive import duty credits based on the value of the goods exported multiplied by the applicable Australian tariff, up to the total value of tariff revenue from TCF imports. The TCF Exporters’ Forum claimed that as such credits would not be transferable and would be capped by the total tariff revenue collected, they would be less subject to challenge under WTO rules than the ICS.

The Commission believes that if the Government wishes to provide additional adjustment assistance, several principles should be observed in order to achieve the greatest benefit to the community (see Chapter 10). The proposed Import Duty Drawback Program would not meet the criteria for adjustment assistance — it is distortionary, non-equitable and bureaucratic. For example, those companies receiving the greatest tariff assistance would also receive the greatest duty drawback assistance. Those companies with lower protection (and therefore probably more internationally competitive and likely to be able to take advantage of export assistance) would receive less duty drawback assistance. To benefit from the credits, exporters would need to become importers as well. Non-tradeable credits would probably increase total imports, as exporters would have to ‘use them or lose them’.

The Import Duty Drawback Program shares many of the disadvantages of both the Manufacturers’ Concession proposed by the TFIA (see Chapter 10) and the ICS. Furthermore, it is unlikely to achieve its principal objective — to provide an export subsidy that would not transgress WTO rules.
In the Commission’s view, it is unlikely that a WTO-compatible scheme could be designed which was sector-specific and directly oriented to exports.

9.4.3 Would a replacement scheme be desirable?

As outlined in Section 9.2, the Government implemented the Scheme with the aim of speeding the adjustment process. Specifically, it aimed to promote internationally competitive TCF activities and place greater pressure on inefficient activities to restructure.

The existing Scheme has raised the overall level of assistance provided to TCF industries and has to some extent reduced the imbalance of protection within these industries against export activities relative to import-competing activities. It has enabled some TCF companies to finance marketing efforts to gain export sales, invest in new capital and achieve economies of scale through increased sales. In some cases, suppliers and customers of these companies have shared in the benefits through more favourable prices.

Whether the Scheme has promoted the interests of the community as a whole, however, is much less certain.

Assistance is most likely to be justifiable from an economy-wide perspective if it benefits the wider community as well as the assisted company. Many argue that there are such benefits associated with promoting an export culture in TCF where relatively high levels of protection have reduced incentives to seek out export opportunities. Encouraging some companies to export may provide ‘demonstration models’ for others in the industry of the approaches and rewards that are possible.

Such benefits may well have occurred, but this is not a strong argument for extending export assistance over long periods of time. By 2000, the ICS will have operated for nine years, by which time companies would have had opportunities to recognise and develop export markets. Extending assistance creates a risk that companies may become dependent on it rather than seeking to establish export activities which are profitable in the absence of assistance. In fact, it appears that the degree of dependence of export income and overall profitability on the Scheme has not declined, suggesting that some export activities may decline as the rate at which credits accrue under the ICS tapers off in the coming years. As discussed in Section 9.3, some participants indicated that their exports were sustainable only with the ICS. The ICS also has had some unintended consequences within industries. For example, in some cases it has resulted in restricted domestic supplies and higher prices of raw materials and intermediate goods.
A stable, low inflation macroeconomic policy environment, together with efficient infrastructure and lower protection levels, is more likely to provide a strong commercial basis for sustainable, profitable opportunities in overseas markets.

From an economy-wide perspective, therefore, it appears that the ICS has distorted the efficient allocation of the community’s resources and may be serving to delay necessary adjustment by providing additional assistance to some TCF industries which are already highly assisted.

Some participants have argued that the ICS is necessary to balance the high trade barriers faced by Australian exports in overseas markets. One example raised in this context was the effect on world cotton prices of export taxes on cotton imposed in Pakistan:³

> The import credit scheme has overcome most of the raw material pricing subsidies of other countries and allowed spinners to expand and compete internationally. (Rocklea Spinning Mills, sub. 50, p. 2)

As outlined in Chapter 7, TCF industries are relatively highly protected in many countries, and tariffs frequently escalate through the stages of production. However, these barriers are faced by all exporting countries and Australian exports often face lower barriers than other competitors. In any case, as outlined in Chapter 10, matching domestic assistance arrangements with those prevailing in other countries is unlikely to yield net benefits for Australia and is more likely to reduce our overall economic performance. What is of primary importance for resource allocation in Australia is the structure of its own production incentives.

Finding

On balance, while the Import Credit Scheme has awakened some TCF companies to the opportunities in export markets, it has had unintended consequences, and has provided additional assistance to some relatively highly protected industries. There will be a significant reduction in assistance to those firms using the scheme when it ends, as scheduled, in 2000.

It is clear that the ICS has made exporting more profitable, and in so doing has encouraged exports which might not have occurred otherwise. However, the ICS was always intended to conclude in 2000 (Hawke et al. 1991, Button 1992). Further, the case of Howe Leather (see Box 9.1) has underlined the vulnerability to challenge under WTO rules of any scheme based on direct assistance to exports. It is not clear that the ICS has resulted in a net benefit to the

³ The distortion of world trade in cotton is examined in more detail in Chapter 7.
community. Higher levels of exports *per se* are not of intrinsic benefit to the community, particularly if they are sustainable only with government assistance.

**Recommendation**

The Import Credit Scheme should terminate as scheduled on 30 June 2000.
10 THE PATH OF ASSISTANCE REFORM

Although the level of assistance to the industries has fallen significantly over the past decade, further declines are required to meet Australia's international commitments under the Asia–Pacific Economic Co-operation (APEC) Forum agreement. To assess the arguments about further reform, it is necessary to examine the effects of tariffs on the TCF industries, other industries affected by TCF tariffs, consumers, and the economy as a whole. A starting point for assessing these issues is to gain some insight into how the TCF industries might look in 2000.

The chapter then examines arguments for a tariff pause and discusses specific proposals for budgetary assistance measures.

10.1 The path to 2010

Greater understanding of the costs of protection and of Australia’s international trade commitments has meant that very few participants suggested a return to the high protection of the 1980s. Most, however, argued for delaying further reductions in assistance. This was seen as necessary to preserve activity and employment in TCF manufacturing. It was argued that the industry needed some ‘breathing space’ after 2000, given the significant reductions in assistance over the past decade, and that there were several years yet to pass under the current program of reform. An additional argument was that further reductions should proceed only when it becomes apparent that international agreements to liberalise trade are being implemented by other countries and further microeconomic reform has occurred within Australia.

The Council of Textiles and Fashion Industries of Australia (TFIA) argued:

We need to maintain the current tariff levels beyond the year 2000 until the MFA [Multifibre Arrangement] liberalisation is completed. We should align subsequent tariff schedules to the liberalisation that occurs by our APEC trading partners and we should work in a harmonised way to ensure that we can compete on an equal footing. (trans., p. 472)

Some participants argued that the gains from reductions in tariffs beyond 2000 would provide little economy-wide benefit. Others were equally emphatic that reform of TCF assistance must not stall. For example, the Wool Council of Australia argued:
... just as Australian woolgrowers are exposed to the full discipline of the international market place, the TCF industries must also accept this challenge post 2000. (sub. 157, p. 4)

By the year 2000, assistance to TCF industries will have fallen considerably from its peak in the mid-1980s. The maximum tariff rate will be 25 per cent, significantly below the maximum of around 130 per cent1 in 1986, but still higher than any others applying in the manufacturing sector.

TCF tariffs need to fall to meet Australia’s international commitments. The APEC Agreement commits developed country members to free trade and investment by 2010 (see Chapter 7). World trade in textiles and clothing is being liberalised under the Agreement on Textiles and Clothing (ATC) of the World Trade Organization (WTO). While there is some uncertainty about the details of the liberalisation path by other developed countries (particularly with respect to imports from China), the framework is set.

10.2 Industry snapshot

In the Commission’s view, the broad trends of the past decade will continue in the period to 2000 and beyond. The diversity of these industries is underlined by the range of responses within the sector to change in Australian and offshore markets. The combination of these factors will cause some activities to scale down, close or move offshore. Conversely, other TCF activities will continue to expand, as they have done over the past decade. While it is difficult to say with any certainty or detail what the future complexion of these industries will be, overall it is likely that the Australian TCF manufacturing industries of 2010 will be more efficient, globally oriented and capital-intensive. The labour-intensive areas will continue to shrink as they have done over the past 30 years.

TCF will remain a significant manufacturing industry in Australia in 2010. For the domestic market, natural advantages, such as proximity to local buyers, will ensure that areas of clothing and fashion remain viable. Similarly, there is no reason why parts of the industry will not continue to succeed in high value-added, niche markets both at home and abroad — just as firms such as Coogi, Ken Done and Rip Curl have done over the past decade.

It is important to recognise that the assistance regime will be only one of the factors driving change in these industries. Elsewhere, this report has sought to outline the range of factors which are shaping what is now a global industry.

---

1 This is the tariff-equivalent maximum for the sector in 1986. It comprised a base tariff of 50 per cent plus a quota tender premium of 80 per cent.
For some sectors, cost is the driving force. The overwhelming cost competitiveness of low-wage countries — especially China — means that labour-intensive activities undertaken in developed countries will continue to come under pressure. The extent of contraction will depend upon the ability of firms to increase productivity, control costs and take advantage of competitive advantages in design, quality, branding, marketing and capacity to service retailers.

Conversely, as discussed in Chapter 1, there are numerous examples of innovative companies competing successfully in niche market segments domestically and abroad. The Commission expects that the industries will consolidate linkages with overseas markets through offshore processing and supply, and through exports. Relationships through the production chain from grower to retailer will continue to deepen in an effort to improve productivity, product range and quality, and enhance the ‘natural protection’ advantages of quick response and tailoring to retailers’ niche requirements. Export opportunities are likely to continue to expand as overseas trade barriers are lowered, especially if Australian production costs remain subdued.

The trends in textiles production are more diverse. There is potential for growth in early-stage processing activity to continue, particularly in wool and leather processing using local raw supplies. Industrial textiles are another area of prospective growth. Other parts of textiles manufacturing which have relied on assistance will face a more difficult trading environment in 2000 when tariffs will be lower. Also, some parts of the textiles industry could be adversely affected by any contraction in downstream clothing industries. There is likely to be further rationalisation of capacity to achieve economies of scale. For example, Pacific Brands indicated that in the longer term, the best outcome:

... for our textile operations in a minimal assistance environment would be a further rationalisation of our two key sock mills into one plant, and the rationalisation of our spinning and fabric knitting facilities with a number of our domestic competitors. (sub. 44, pp. 16–17)

Similarly, Sheridan Australia noted that its manufacturing operations had been rationalised from five locations to two (DR trans., p. 82)

Modelling undertaken by the Centre of Policy Studies (CoPS) at Monash University indicated that even if tariffs were held constant at their 2000-01 levels aggregate employment would decline, and growth in TCF output would be well below the economy-wide average.

Two ‘base case’ scenarios were estimated, varying according to different assumptions for growth in the volume of TCF exports, the lower leading to smaller projected increases in output, and greater falls in employment. TCF
output was projected to increase between 0.9 and 1.5 per cent per year between 1996-97 and 2013-14. By comparison, GDP is estimated to grow by around 3.3 per cent per year over the same period.

Employment is projected to fall by between 1.1 and 1.9 per cent per year between 1996-97 and 2013-14, which implies an overall fall in employment of between 17 000 and 27 000 persons.

The modelling projected a range of outcomes across the sector. Output was estimated to be stronger under these base cases in the textiles sector than in clothing and footwear, and the rate of reduction in textiles employment was estimated to be less. The clothing sector was estimated to fare worst, with an estimated annual rate of decline in employment of between 1.6 and 2.3 per cent.

### 10.3 The costs of protection

Although levels of protection in these industries have declined significantly since 1989, the current industry structure reflects, in part, the effects of the assistance arrangements which existed at the start of this decade.

#### 10.3.1 The effects of past high levels of protection

Assistance to TCF manufacturing peaked in the mid-1980s, when bounties, quotas, by-laws and tariffs swamped underlying price signals and cost structures. Effective rates of assistance greater than 200 per cent for some activities were not uncommon. At this time, the manufacturing sector’s average effective rate of assistance was 20 per cent (see Chapter 6).

While assistance has declined, the pervasive effects of that earlier regime are still having an impact today. Protection of TCF manufacturing over the last decade had many influences on the shape of TCF industries:

- protection escalated along the production chain, and domestic production in the finished goods, more labour-intensive end of the market was encouraged relative to the more capital-intensive intermediate goods end where Australia had some competitive advantage;

- the assistance structure reflected the shape of the industry in earlier times and discouraged adjustment to changing global circumstances;

- assistance varied greatly between substitutes in production and consumption, distorting resource allocation and consumption patterns for intermediate inputs and final goods;
• base import quota was used to import higher value goods, thereby encouraging local production of lower unit value goods — an area of relative disadvantage for a high-wage country;

• quota assistance meant that industry was ill-prepared for tariff-only protection (albeit at very high levels). Manufacturers no longer had guaranteed market share and retailers faced transitional problems in adjusting to an environment where the availability of goods was no longer restricted — over-stocking on cheap imports, at the expense of orders from domestic producers; and

• clothing manufacturers were encouraged to use lightweight synthetic and cotton fabrics imported duty-free under by-law, instead of protected locally produced fabrics such as wool.

Despite the decline in assistance over the past decade — greater than that experienced by almost any other sector in the Australian economy — the effects of high levels of protection are still being felt. Furthermore, TCF tariffs and effective rates of assistance\(^2\) scheduled to prevail in 2000 will still be higher, on average, than any others in the manufacturing sector. Tariff rates on clothing and bed sheeting will be at least 20 percentage points higher than the rates applying to imports of most other manufactured products.

Figure 10.1 relates the effective rate of assistance (ERA) for textiles, clothing and footwear to the average ERA for manufacturing. In 1996-97, the average ERA for clothing and footwear was eight times that afforded to manufacturing as a whole. For textiles, it was four times the manufacturing average. By 2000-01, the effective rate of assistance for clothing and footwear will still be around 7 times the manufacturing sector average. The corresponding figure for textiles will be 3 times the manufacturing sector average.

The level of tariffs in 2000 will continue to have significant economy-wide effects. Tariffs reduce the size of the national economy (broad economic effects), and impose costs on consumers and other users (tax effects). They discourage industries from becoming internationally competitive (firm productivity effects). Box 10.1 provides a framework for understanding some of these effects.

---

\(^2\) The effective rate of assistance is an indicator of the extent to which the overall structure of assistance advantages or disadvantages an industry relative to other industries. It measures net assistance to an activity’s value-adding activities by accounting for taxes and subsidies on outputs of and inputs for productive activities.
These costs also signal an important equity issue: TCF industries receive significant quantities of community assistance which is not generally available to other sectors of the economy. As such, lower levels of assistance to these industries do not represent the removal of a benefit which other parts of the economy receive. Community support of this magnitude is atypical in the Australian economy.

10.3.2 Economic effects of tariffs

The broad economic benefits that flow from reductions in TCF tariffs are best described by identifying the impact of existing TCF tariffs on production and consumption patterns in the economy. Tariffs are a form of selective support for production activity. They raise prices of protected goods at the expense of users and consumers, and support production in protected industries at the expense of other industries. There has been a sustained decline in TCF employment since the 1960s despite large changes, including considerable increases for much of the time, in assistance levels (see Figure 10.1).
The result is a less productive economy, which means lower living standards for the Australian community. The Queensland Government submitted:

Industry assistance measures ... lead to loss of investment and employment opportunities in non-assisted industries, by increasing costs and shifting resources away from these industries. Such negative effects are felt most severely by industries that are exposed to international competition, as these industries are not able to pass on higher costs to consumers. Industry-specific policies, such as border protection, distort resource allocation and can reduce international competitiveness and national income. (sub. 149, p. 3)

**Firm productivity**

Reductions in tariffs since 1989 have encouraged better performance in TCF industries (see Chapter 1). Firms have been induced to lower costs, adopt new
technology, improve quality, become more innovative and raise productivity. Several participants acknowledged that falling protection has caused them to improve their productivity. For example, Australian Weaving Mills stated:

The business is leaner and more customer-focussed than it was even five years ago ... over the last decade or so, the industry has been exposed to decreasing levels of protection which has led to a major restructuring and rationalising of the industry. Plants have closed, employment has reduced, productivity has increased and consumer prices have come down. (sub. 12, p. 1)

Figure 10.2: Clothing and footwear assistance and employment indices, 1968-69 to 1994-95

Very Fine Fabric Knitters stated that companies have improved their performance in response to increased competition:

It is clear that Australian TCF companies have taken affirmative action in spite of difficult times and arduous market conditions, to change positively by becoming more competitive. (sub. 84, p. 5)

The Victorian Government submitted:

The TCF industry in Australia today is very different from that of ten or even five years ago as a result of the changed domestic and international environment that it operates in. Many parts of the industry have responded positively to new challenges by becoming more global in their outlook and innovative in developing new and improved products and processes. The TCF Future Strategies Committee noted, for example, that:
In 1988, relatively few textile manufacturers were internationally competitive in terms of their cost structures, technologies, quality or customer responsiveness. Following substantial investments and restructuring, a broad range of textiles and yarn manufacturers are now internationally competitive and successful in domestic and international markets.

... At the enterprise level, firms have undertaken many positive initiatives including: renewing and modernising plants and introducing new production and process techniques such as Electronic Data Interchange; refocussing businesses on specialised markets or products; and seeking greater flexibility in production and sourcing decisions. (sub. 152, p. 2)

Although the industries have improved their efficiency, the need to embrace change will not cease — competitors will continue to improve production processes, technology will improve, and market opportunities will alter. Tariffs insulate domestic producers from the need to keep up with these changes. Failure to pursue productivity improvements imposes heavy costs on the community.

The pattern of assistance distorts the efficient development of TCF industries (see Chapter 6). In a way, this is inevitable — it is impossible to structure a protection regime for the vast number of different TCF products which does not create anomalies, given that many are used as inputs in the production of others, or as substitutes in production or consumption.

These anomalies promote less competitive activities and penalise areas within the TCF sector in which Australia may be relatively efficient. More generally, differing rates and exemptions create incentives for TCF firms to devote management time to gaining assistance — either in barrier or ‘positive’ forms.

Other industries

Tariffs harm other businesses by raising the price of inputs for which they compete. There is not an endless supply of resources. Increasing costs restrict the growth of industries in Australia, including those which are likely to enjoy some competitive advantage. These are not one-off costs — they continue for as long as an assistance regime is maintained.

3 In the short term, finding alternative uses for some resources used in the TCF industries, especially low-skilled labour, can be difficult, but there is a significant longer-term ‘opportunity cost’ associated with resource use in the TCF industries compared with that in less assisted industries. Tariffs do not increase the total level of employment in the economy. TCF tariff reductions may lower employment in the TCF sector but will increases it elsewhere — in part by the employment of people who otherwise would be unemployed.
Most directly, tariffs harm user industries by reducing their competitiveness through inflated business costs. For example, the tariff structure for TCF products means that furniture manufacturers pay inflated prices for fabric, a major input to their production. The 15 per cent tariff on textiles which will apply in 2000 is triple the rate on furniture industry output. The furniture industry stressed the impact this has on its competitiveness:

> The tariffs being provided for the TCF industry are damaging the furnishing industry’s future ... Australian manufacturers importing fabrics ... pay 25 per cent above the world price ... when competing with imported furnishing products sold in Australia, which attract 0 to 5 per cent, the local manufacturer must bear the burden of overpriced textiles. (Burgtec (a furniture manufacturer in Western Australia), sub. 63, p. 1)

Similarly, Scalisi Fine Upholstery submitted:

> Textiles are a major cost to many segments of the [furnishing] industry ... [furnishing producers] are disadvantaged if they buy either Australian textiles or imported fabrics and if their product is sold on domestic or international markets. (sub. 89, p. 1)

**Exporters**

Like other businesses, exporters’ costs are increased by tariff protection. However, compared with other businesses, exporters have far less potential to pass on this cost in competitive world markets. This results in lost market opportunities and/or lower profits. Furthermore, as tariffs make imports relatively less attractive, they put upward pressure on the exchange rate for the Australian dollar. This further harms exporting industries such as mining, agriculture and tourism, and increasingly, the growing group of exporters of elaborately transformed manufactures. This exchange rate effect also adversely affects other import-competing industries including a large proportion of Australia’s manufacturing industries.

Tariffs disadvantage regions focussed on export-driven industries. The Queensland Government noted:

> Regions where the favoured industries do not represent a significant part of the economy are likely to be affected negatively by industry-specific assistance policies. International and Australian studies have shown that the costs and benefits of particular industry policy measures can be localised and that non-favoured regions, particularly those with relatively large exporting sectors, can suffer significant adverse effects.

Queensland, with its relatively small TCF industry and relatively large exposure to international trade, is more likely than other States to suffer negative effects flowing from industry-specific assistance directed towards the TCF industry. (sub. 149, p. 3)
The National Farmers’ Federation of Australia, which represents an export-oriented constituency, drew attention to the need to reduce protection. It warned of the consequences of a tariff pause:

Change will always foster fear and uncertainty and be resisted by some. Yet change is simply growth by another name. If governments use protection to shelter industries from change they will harm economic growth. ... A healthy economy ... must be constantly evolving, with some industries expanding and others declining. Only if resources are free to move to new industries will new jobs be created. (sub. 163, p. 1)

**Households**

Tariffs reduce economic welfare through their effects on consumption patterns. Faced with tariff-inflated prices, consumers will buy fewer TCF products, receive fewer goods for their TCF dollar or compromise on quality. Moreover, because of the higher prices of TCF products, they may spend less on the outputs of other industries, such as housing, holidays or household goods. Whichever combination of these effects emerges, consumers are worse off as a result of TCF protection.

Such distorted consumption patterns not only leave consumers worse off, they skew the pattern of production and investment in the economy.

### 10.3.4 Tax effects

The adverse impact of TCF assistance on economic efficiency and on the incentives for firm productivity represent real economic welfare losses. But this is not the end of the story — large transfers of income are set in train from TCF tariffs.

Tariff protection taxes consumers by raising the prices of TCF products. Most obviously, tariffs have a direct effect on the price of imported final products, but they also inflate the price of domestically produced products competing with imports. In addition, tariffs on intermediate TCF products inflate the prices of certain other goods by raising their production costs. Consumers therefore pay tariff-inflated prices directly and indirectly. An example of the impact of TCF tariffs on the final price of goods that use TCF industry inputs is presented in Box 10.2. Clearly, these effects diminish as tariffs decline. In this example, in 2000 the tariff on fabrics will be 15 per cent, which would imply an additional fabric cost of around $46, compared with $67 at the current tariff level.

Estimates by the Commission indicate that, on average, households of all income groups are adversely affected by TCF tariffs. Based on 1993-94
Box 10.2: The effect of the textile tariff on a three seat lounge

The average three seat lounge uses 16 metres of fabric at the tariff-inflated price of more than $23 per metre (reflecting a 22 per cent tariff on textiles — the 1997-98 tariff rate). Without a tariff, the fabric price would be about $19.20 per metre — a saving of $67 on fabric inputs. A manufacturer’s margin (30 per cent), sales tax (12 per cent) and a retail margin (50 per cent) magnify the effect of the tariff. The outcome is that in 1997-98 textile tariffs lead to a $150 price increase for this mid-priced three seat lounge.

<table>
<thead>
<tr>
<th></th>
<th>Tariff ($)</th>
<th>No tariff ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fabric</td>
<td>384</td>
<td>307</td>
</tr>
<tr>
<td>Other (wood, labour, foam)</td>
<td>287</td>
<td>287</td>
</tr>
<tr>
<td>Manufacturing cost</td>
<td>671</td>
<td>594</td>
</tr>
<tr>
<td><strong>Retail price (after mark-ups)</strong></td>
<td><strong>1446</strong></td>
<td><strong>1297</strong></td>
</tr>
</tbody>
</table>

*Source: Estimates based on Furnishing Industry Association of Australia sub. 155, p. 1*

Expenditure patterns, the TCF tariff regime applying in 2000-01 is estimated to equate to an annual tax burden (known as the consumer tax equivalent) of between $800 million and $1 400 million (1996-97 dollars). This figure represents the transfer away from consumers and users. It comprises tariff revenue (going to the government) and higher prices for domestic producers. These figures are not a proxy for the broad economic effects — the so-called efficiency costs — discussed above.

### 10.4 The assistance reform path

Throughout this Inquiry there was general agreement among participants about the benefits and inevitability of global trade liberalisation. Participants acknowledged Australia’s obligations under APEC for further tariff reductions by 2010. However, many participants argued that Australia should not proceed with further tariff cuts until other countries do the same.

At issue is the path by which to reduce assistance to the general level for manufacturing (5 per cent), and to meet the APEC commitment. While the major industry groups indicated their support for tariff reductions to meet that commitment, they proposed in the interim a package of assistance measures which would involve a significant increase in their level of assistance over that scheduled to prevail in 2000-01. The TFIA submitted that a TCF sectoral plan should be maintained after 2000, and that the elements of the proposed plan be introduced as a complete package:
The TFIA has stressed the need for the maintenance of a TCF sectoral plan beyond 2000. ... The elements are all heavily integrated and it is important that they be introduced as a complete package (sub. 160, p. 3)

The TFIA’s major proposals are outlined in Box 10.3. They comprise a proposed pause in tariff reductions and other assistance measures.

Box 10.3: The TFIA’s major proposals for assistance after 2000

2. Continue tariff reductions beyond 2005 in accordance with our APEC commitments, subject to a review in 2004 to assess: (i) progress made by Australia’s trading partners in liberalising TCF trade; and (ii) domestic progress on microeconomic reform.
3. Introduction of a replacement for the Import Credit Scheme.
4. Introduction of a Manufacturers’ Concession Scheme.
5. Extension and modification of the Overseas Assembly Provisions scheme.

Source: TFIA subs. 66, 160, 200

The TFIA also recommended:
- continuation of the TCF policy by-law arrangements;
- strengthened anti-dumping arrangements;
- industry rationalisation and retrenchment assistance; and
- abolition of payroll tax for TCF.

The combination of these factors — in particular, the tariff pause, the Import Credit Scheme replacement, and the introduction of a Manufacturers’ Concession Scheme — would reverse the generally agreed direction of policy which has involved reductions in protection levels.

10.4.1 The benefits of unilateral tariff reduction

Simply put, the general argument for lower assistance is that it will result in higher living standards for the community as a whole. Selective industry assistance means that some activities are supported at the expense of others. From an economy-wide perspective, resources end up being used less efficiently. Higher national income is possible — although domestic protection levels may fall, greater competition leads firms to improve their productivity and resources are encouraged to move to areas in which they are likely to be
most productive. As discussed in Chapter 1, there have been significant improvements in TCF productivity over the past decade. Lower levels of assistance have been an important factor influencing this change.

Clearly, the benefits of trade liberalisation are greatest when all countries remove barriers. Data indicate a strong link between more open trade and economic growth:

[Data on world trade] show a definite statistical link between freer trade and economic growth. All countries, including the poorest, have assets — human, industrial, natural, financial — which they can employ to produce goods and services for their domestic markets or to compete overseas. ... Simply put, the principle of ‘comparative advantage’ says that countries prosper first by taking advantage of their assets in order to concentrate on what they can produce best, and then by trading these products for products that other countries produce best. (WTO 1997)

However, while countries benefit from assistance reductions in other countries, empirical evidence suggests that most of the gains from trade liberalisation measures come from countries reducing their own barriers. McKibbin (1997) estimated that the gains to Australia from all other APEC countries meeting Bogor commitments to free trade were around 11 per cent higher than the gains to Australia from meeting its own commitments unilaterally.

Participants pointed to the ‘corruption’ of world trade in TCF. For example, BTR Kennon said:

Of all the commodities, textiles is recognised by many as the most corrupted area of world trade. (sub. 91, p. 5)

Similarly, the TFIA submitted:

... World TCF trade remains heavily managed and corrupted by a plethora of trade barriers ... [TCF trade] is the most corrupted of all trade in manufactured goods. (sub. 66, pp. 7, 19)

The Commission agrees that tariffs and quantitative restrictions have had a significant effect in restricting international trade in TCF (see Chapter 7). However, Australia is not alone in taking action unilaterally, in TCF or other products. Also, while Australia will benefit from further liberalisation by other countries, to delay its own liberalisation would be to delay the greater part of the gains.

10.4.2 Tariff pause

Many participants considered that tariffs should be maintained at their 2000 levels to give the industries ‘breathing space’. Two major sets of reasons were
advanced for a pause. The first related to factors in these industries and the Australian economy more generally:

- the industries will have undergone so much change by 2000 that they need ‘recovery time’ before facing a new round of assistance reduction;
- a pause would allow the past and foreshadowed future benefits of microeconomic reform to flow through as reduced costs; and
- the industries have undergone significant adjustment since 1989, and there is more to come under the current program. A pause would mitigate the social costs of displacing workers.

The second related to conditions in overseas markets. Some participants argued for a pause on the grounds that it would provide time for other countries to match Australia’s TCF trade liberalising efforts — so-called ‘reciprocity’.

These arguments are discussed below. They need to be considered against the costs of a pause. These include:

- delaying the gains from reform;
- sending a signal to other countries and other industries that reform is on hold; and that level of government assistance can be preserved by strong lobbying on the part of domestic vested interests;
- adding to uncertainty.

A pause conditional on other factors would be particularly problematic given these costs. A pause conditional on either progress on microeconomic reform or on what other countries are doing would greatly increase uncertainty, as it would require that policy for these industries is tied to either the actions of governments overseas (in the case of reciprocity), or State governments (in the case of some microeconomic reforms).

**Breathing space**

Most participants said that the reduction in assistance since 1989 had left the industries weak with low profitability. They have argued that while they accept the need for further tariff cuts in the long term, they have reached the point where their short-term capacity to adapt to further reductions in assistance is exhausted. They say that they need a breathing space to allow them to regroup before the final program of tariff reductions is put in place. The industry association has proposed that tariffs be maintained at their 1 July 2000 level until 2005, after which tariffs would be phased down to meet Australia’s APEC obligations for free trade by 2010 — subject to other countries’ progress on trade liberalisation.
However, such a pause would involve significant costs, as noted above. Furthermore, while a pause may be feasible for those industries with tariffs at 15 per cent or less on 1 July 2000, it would be difficult to accommodate for those clothing and textile product industries with tariffs at 25 per cent. Since the current program of tariff reductions began in 1990, the clothing tariff has been falling, and is scheduled to continue to fall, by an average of 3 percentage points per year. A pause in tariff reductions like that advocated by the TFIA would require sharp reductions in tariffs of at least 4 percentage points per year to reduce tariffs from 25 per cent in order to meet the APEC agenda by 1 July 2010.

The costs of a 25 per cent tariff are still quite high. The consumer tax equivalent of the tariffs which will prevail in 2000-01 is estimated to be up to $1.4 billion (1996-97 dollars). The loss in resource allocative efficiency of tariffs of 25 per cent is substantial — the TFIA’s modelling pointed to the ‘excess burden’ of tariffs being substantially greater when tariffs are 25 per cent compared with 15 per cent (sub. 225). It is the Commission’s judgment that maintaining tariffs on clothing and other textile products at 25 per cent for any length of time would impose an unacceptable cost on the rest of the community.

Furthermore, this last stage of tariff reductions represents a significant change in relative assistance, though not as substantial as that which earlier occurred when TCF assistance was much higher than assistance for manufacturing generally. The relative assistance is an important factor in terms of drawing resources away from other activities in the domestic economy. Effective assistance to clothing manufacturing is currently eight times the manufacturing average and this ratio will not fall substantially until tariffs are reduced below their 2000 levels.

**Slow pace of microeconomic reform**

State and Commonwealth governments have pursued microeconomic reform to improve overall productivity. Several participants argued that microeconomic reform has not kept pace with reductions in protection, leaving industries in the traded sector vulnerable to competition. They argue that further tariff cuts should occur only after more microeconomic reform has been implemented. For example:

> Further substantial delivery on microeconomic and labour market reforms must occur before post-2000 TCF assistance levels can be reduced. (Australian Business Chamber, sub. 141, p. 2)

Similarly, the South Australian Government submitted:
The pace of broader microeconomic reform must be accelerated if the TCF industry is to have any chance of adapting successfully to a lower tariff environment. Further tariff reductions post 2000 should not proceed until demonstrable progress has been achieved on the microeconomic reform front. To remove tariffs in the absence of a competitive domestic cost structure for inputs will simply place the industry at a significant disadvantage compared to overseas competitors. (sub. 232, p. 3)

The Commission concurs that there is still much to do to improve the performance of Australia’s economic infrastructure, taxation and welfare systems, labour markets, and education and health services. However, while there is a clear need for a more concerted effort by governments to address fundamental reforms, this is not a rationale for delaying tariff reform.

Much reform has occurred over the last decade of direct benefit to TCF industries. Improvements in the performance of economic infrastructure services have reduced costs and further reductions are likely. More generally, improvements in labour market regulation, competition in banking, and the performance of government services have reduced costs to most industries. Moreover, all sectors of the Australian economy are affected by the pace of microeconomic reform, but only one other manufacturing sector has anywhere near the benefit of the substantial tariffs enjoyed by the TCF industries.

Microeconomic reforms which provide economy-wide benefits can advantage some sectors over others. Indeed, the furniture and hospitality industries would regard reductions in TCF tariffs as a major microeconomic reform. Making microeconomic reform a prerequisite for further tariff reductions would be highly discretionary, and this circularity could stall the wider reform process. In other words, if the Government were to accede to arguments by the TCF industry that tariffs not be reduced further until microeconomic reform in other areas proceeds, the other sectors which use TCF products could argue on the same grounds for no change in policies that may affect their industries adversely until TCF tariffs were reduced.

Ongoing tariff reforms give further impetus for reform in other areas. Delaying tariff reform until improvements are made elsewhere in the economy can be a recipe for ‘doing nothing’. If every sector adopted the position that it should not face reform until progress was made in reforming other sectors, the whole process could be stalled at the expense of forgone productivity across the economy.

---

4 A review of progress in microeconomic reform in Australia and directions for further action is contained in the Commission’s report Stocktake of Microeconomic Reform (PC 1996).
The Wool Council argued:

Creating links between progress on microeconomic reform and protection policy will serve only to slow rather than accelerate reform. In recent years, it has clearly been the reduction of tariffs which has forced industries to confront their standing in the international market place, and in turn has generated the pressure from industry and the political imperative for microeconomic reform. (sub. 157, p.11)

**Unacceptable adjustment costs and the need for consolidation**

Some participants argued that the tariff reduction program under the current plan will have placed significant pressure on these industries and that further reductions after 2000 would impose adjustment costs on TCF industries which would offset the economy-wide benefit. Of concern was the loss of TCF employment and the effects on displaced workers’ families and communities:

If tariffs do result in small cost increases for the local product ... this would be a very small price to pay in comparison to the direct and indirect costs of unemployment. (Australian Dyeing Company, sub. 4, p. 4)

Typically, large adjustment costs and large community gains from adjustment go hand in hand. If the adjustment costs caused by further reductions in protection are very large, then there may be a case for adjustment assistance, rather than a tariff pause.

Further tariff reductions would increase competitive pressures on TCF industries and result in additional losses of TCF manufacturing jobs. As discussed previously, however, manufacturing employment in these industries has declined continuously over the past 30 years (see Figure 10.1), for a number of reasons. The modelling undertaken for the Commission of these industries into the future points to further declines in employment whether or not tariffs are reduced after 2000. The Commission’s judgement is that the decline in employment attributable to further tariff cuts would be significantly less than that attributable to other factors.

A more appropriate strategy would be to ensure that programs are in place to enable resources to move to areas where there is a more sustained demand for their talents. Labour adjustment issues are discussed in detail in Chapter 4.

**Need to align protection levels with those in other countries**

Some participants stated that Australia has moved faster and further than other countries in reducing assistance to TCF industries. Many considered that Australia’s TCF companies are subject to more import competition than their
overseas counterparts, yet encounter difficulties in obtaining access to foreign markets.

Of particular concern was the perception of a corrupted world market for TCF products, and that other countries were backsliding on commitments under the WTO. The TFIA said:

... world trade in TCF goods is widely recognised as the most ‘corrupt’ area of international trade. All countries heavily support their domestic TCF industries and this introduces substantial distortions into the overall trading environment. (sub. 160, p. 2)

Furthermore:

The Agreement on Textiles and Clothing [was] designed to liberalise world TCF trade, the reality is that most countries are backloading their liberalisation steps and meaningful progress will not be made before 2004. (sub. 160, p. 2)

As discussed in Chapter 7, the Commission has found no evidence of ‘backsliding’.

The picture presented by participants of low assistance in Australia relative to the rest of the world has some basis in that most OECD countries use quotas (imposed by exporting countries) to restrict imports while Australia does not. On other counts, however, it over-simplifies the true situation, as noted in Chapter 7.

Some have suggested that there may be gains from using tariff reductions as a bargaining chip for access to overseas markets. Indeed, it has been claimed that, in proceeding unilaterally, Australia squanders negotiating coin. The probability of Australia being able to strike such a bilateral arrangement is limited. The reality is that Australia has limited bargaining strength. Further, the General Agreement on Tariffs and Trade (GATT) effectively rules out discriminatory bilateral tariff policy. It requires members to extend reductions in barriers to all other members on an unconditional ‘most favoured nation’ basis (unless countries are members of a GATT/WTO–consistent free trade agreement or customs union). Thus, negotiated barrier reduction would need to be extended to all comers.

Of course, this would not preclude Australia from negotiating with a country which stood to gain from reduced Australian trade barriers — provided such reductions were extended to all members of the WTO. Indeed, Australia has been a party to recently to such a sector-specific agreement — the Information Technology Agreement.

Furthermore, in the context of the APEC forum, maintaining tariffs on TCF products to satisfy domestic calls for a tariff pause would not be a risk-free
strategy. It could encourage ‘backsliding’ by other countries on liberalisation of sectors which they might also regard as being sensitive — agriculture, for example. If such ‘backsliding’ occurred, it would threaten severely Australia’s interests and jeopardise the establishment and benefits of free and open trade and investment in APEC. It also could encourage other Australian industries (for example, in the services sector) to seek exclusion from the APEC commitments.

Importantly, Australia has been granted concessions in multilateral fora for lowering its trade barriers unilaterally. Such unilateral action can have a positive effect on others. Australia’s trade policies have contributed to preserving the integrity of the multilateral trading system and have set an example for others (see for example, GATT 1994). As a leader in the Cairns Group of agricultural exporters, Australia was able to argue successfully for reductions in other world trade barriers. A tariff pause would detract from Australia’s international reputation and impose costs on others. The Wool Council of Australia said:

... the international trade of wool and woollen products is impeded by significant trade barriers that exist world-wide. ... high levels of protection is in part an impediment for Australian trade negotiators successfully achieving reductions in tariff barriers for our wool exports. (sub. 157, p. 3)

Finally, the specifics of any proposal for reciprocity are not clear. Would it involve all commodities? Which countries would be involved? Developed countries only? Major trading partners? Clearly, it introduces a range of complex practical issues.

On balance:

- Australia is the best judge of its own trade interests;
- empirical evidence suggests that most of the gains from trade liberalisation accrue from unilateral action;
- discriminatory bilateral negotiations would be in conflict with Australia’s international trading obligations;
- retaining tariffs for ‘sensitive’ sectors has the potential to encourage other APEC countries to stall liberalisation of their sensitive sectors, including agriculture, at a cost to Australia; and
- there would appear to be significant practical issues involved with the implementation of any form of reciprocity.

In the Commission’s view, a pause in tariff reductions from 2000 to 2005, as advocated by the TFIA, would make adjustment more difficult, not easier. It probably would mean that Australia would be perceived by its APEC trading
partners as not serious about achieving its APEC commitments if the clothing tariff was still 25 per cent by 2005.

10.5 Budgetary assistance

As outlined above, participants (including the TFIA) suggested a range of budgetary assistance measures for the post-2000 environment, to assist TCF companies to adjust to lower tariffs. These included a replacement for the Import Credit Scheme and a manufacturers’ concession scheme. The Commission believes that any program of adjustment assistance should operate only for a finite period to do as the name suggests: ease the transitory pressures arising from change.

There are several arguments for adjustment programs. Adjustment assistance which addresses situations in which market mechanisms fail to produce efficient outcomes may be warranted on economic grounds alone. The Commission considers that adjustment assistance which is linked to research and development may be warranted on economic grounds.

Adjustment assistance also might be provided to smooth the path of adjustment and particularly to avoid ‘double adjustment’, where contradictory adjustments are necessitated by changing, but predictable, circumstances. The industry has argued that its capacity to adjust is limited in the short term because of past adjustment pressures, low profitability and abnormally low world prices because of the corruption of world trade in textiles and clothing. It has said that in the medium term, by 2005 when the WTO’s ATC will have been implemented, its competitive position is likely to be much improved. It has therefore argued for assistance to companies in the meantime to help them to make the many changes that will be necessary to become world-competitive in the future. They argue that this type of assistance is efficiency enhancing because it reduces adjustment costs.

Adjustment assistance, however, is usually provided for distributional reasons. As such, it is essentially a transfer of income from taxpayers to the industry, rather than a net cost to the community, though raising the tax to pay it will involve efficiency costs. Ensuring that those adversely affected by change are treated fairly may be seen also as a way of engendering the necessary community support for tariff reform. As noted earlier, the TCF industries historically have received higher effective rates of protection than all other manufacturing industries in Australia. Consequently, the degree of adjustment can be expected to be greater than in other industries. This factor was recognised in developing the current industry program. In conjunction with
significant tariff cuts, by 2000 more than $1 billion will have been spent by the Government on adjustment assistance measures.

However, there is a danger that further adjustment assistance for TCF firms would increase assistance to the sector rather than facilitate a reduction in dependence on government support. Any adjustment assistance should aim to facilitate adjustment, rather than obstruct or negate it.

The Commission believes that if the Government wished to provide additional adjustment assistance, several principles should be observed in order to achieve the greatest benefit and minimise the costs to the community. Assistance should be:

- facilitating of adjustment, not preventing or obstructing it;
- as non-distortionary as possible;
- equitable with respect to firms within the industry and other firms in similar circumstances;
- simple and predictable for claimants, involving minimal bureaucratic discretion;
- targeted at those who need and can benefit from the assistance;
- transparent;
- limited both in time and expenditure; and
- simple to administer.

The proposals put forward by participants do not perform well against these criteria.

10.5.1 Manufacturers' concession

Several participants recommended the introduction of a ‘TCF Manufacturers’ Concession’. For some, it was seen as a substitute for the import credit scheme. Under the TFIA package of proposals, the manufacturers’ concession would operate in addition to an ICS replacement. The TFIA envisaged a strategic role for the manufacturers’ concession:

The manufacturers’ concession will support import competing industries to internationalise and develop a strategic mix between local and imported products. (sub. 160, p. 3)

The essence of the scheme is that credits earned on domestic production could be used to offset import duty.
The TFIA submitted that the advantage of such a scheme was that it could be tailored to ‘desirable’ business attributes, would be easy to administer, and would be defensible within the WTO as long as it was less than 5 per cent of sales or directed to some specified activities (sub. 66).

Pacific Brands described the proposal in more detail. Its original submission envisaged a credit calculated at 5 per cent of value-added. It also envisaged the reimbursement (in the form of an import credit) of payroll tax paid by the applicant. The credit would be non-transferable, and able to be used only on TCF products, or even limited to the same product on which it was earned (sub. 44, p. 33). Pacific Brands subsequently submitted that that the concession should be calculated on either 5 per cent of sales, or 10 to 15 per cent of value added. (sub. 199, p. 10).

The effects of a manufacturer’s concession scheme depend upon the way it is designed, and existing market structures. Key variables include:

- whether entitlements are tradable between companies;
- whether entitlements can be transferred between types of products;
- the rate at which concession entitlements accrue (the concession rate) relative to the applicable tariff rate; and
- the existing proportion of imports in domestic sales.

If the credits were not transferable between companies, then companies which manufacture domestically and import would be advantaged relative to companies which only manufacture. In this case, there would be incentives for integration which otherwise would not occur between importers and producers, and between those who put out orders for manufacture and those who manufacture. Even without integration, it is likely that there would be negotiations between firms so that those which gave the purchase orders would attempt to capture some of the benefit of the concession. As such, transaction costs may be increased.

If the credits were to be transferable, the manufacturers’ concession would have effects very similar to a production subsidy: a benefit would accrue to producers whether they used the credits themselves to import or sold the credits to others.

Either a manufacturers’ concession or a production bounty may be actionable under WTO rules. The TFIA submitted that to be non-actionable under WTO rules, the manufacturers’ concession would need to be linked to research and development, disadvantaged regions or to ‘environmental compliance support’ (that is, the adaptation of existing facilities to new environmental requirements). This reflects the criteria for non-actionable subsidies outlined in Article 8 of the WTO Agreement on Subsidies and Countervailing Measures (ASCM). These
criteria, however, are stringent. It is unlikely that a scheme could be designed which satisfied the competing demands of providing targeted assistance to domestic TCF manufacturing and adherence to the criteria for non-actionable status.

Alternatively, the TFIA suggested that any scheme would be defensible under the WTO provided the value of assistance was limited to less than 5 per cent of sales. This appears to reflect the terms of the test for ‘serious prejudice’ in the ASCM and relates to circumstances in which other countries’ exports to Australia or elsewhere are displaced by subsidised Australian output. Specifically, concessions could be actionable if they cause ‘serious prejudice’, which is deemed to exist if subsidies have an \textit{ad valorem} effect of greater than 5 per cent. If the subsidy is less than 5 per cent, however, serious prejudice can still be found to exist, but the burden of proof falls on the country bringing the action.

On the other hand, and more importantly, countervailing duty actions could be brought in circumstances where domestic production in other countries is displaced in its home markets by subsidised Australian imports. Australian companies have learnt from experience that being a small exporter does not ensure immunity from this type of action.

As discussed, the TFIA envisaged the manufacturers’ concession as being calculated as 5 per cent of industry sales. Pacific Brands submitted that it would be either 5 per cent of sales or 10 to 15 per cent of value added. Based on these figures, the value of the concession to industry would be somewhere between $300 million and $500 million per year, apparently for an indefinite period. This would have a significant impact in terms of overall levels of assistance. If it were calculated on industry turnover (as opposed to being calculated on value added), it also would distort relative effective rates of assistance within the sector (as value added as a proportion of turnover varies significantly across the sector). For example, the manufacturers’ concession (based on 5 per cent of turnover) would increase the average nominal rate of assistance on clothing from around 20 per cent to 26 per cent in 2000-01. The average effective rate of assistance would increase from around 36 per cent to 50 per cent — the 1996-97 level. For textile fibres, yarns and fabrics, the change is from 15 to 39 per cent. (see Table 10.1)

Furthermore, a subsidy based on sales or turnover would encourage firms to buy more from each other; it would discourage vertical integration and encourage vertical separation of activities. The more times items were sold between firms, the greater the total subsidy would be. Such an incentive could lead to substantial inefficiency. In addition, subsidies linked to sales rather than value
added provide a subsidy to the import content of Australian sales by domestic producers.

Table 10.1: Estimated effect of a manufacturers’ concession equivalent to 5 per cent of TCF sales on nominal and effective rates of assistance in 2000-01

<table>
<thead>
<tr>
<th>ASIC industry</th>
<th>Estimated average</th>
<th>Estimated average plus manuf. concession.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NRA(%)</td>
<td>ERA(%)</td>
</tr>
<tr>
<td>Textile fibres, yarns and woven fabrics (234)</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Clothing and knitting mills (244 &amp; 245)</td>
<td>20</td>
<td>36</td>
</tr>
<tr>
<td>Footwear (246)</td>
<td>13</td>
<td>24</td>
</tr>
</tbody>
</table>

Note: These estimates do not take account of the incentive to increase sales between firms which is provided by a concession linked to turnover.

Source: Commission estimates

10.5.2 Production bounty

As a form of assistance, a bounty has some advantages over tariff assistance, including:

- production for the domestic market would not be advantaged relative to that for export markets;
- the cost of assistance is spread across the whole community instead of being borne only by the users of TCF products; and
- bounties are a transparent form of assistance, facilitating open evaluation of alternative uses of taxpayers funds and the community’s resources.

However, there are also some problems with bounties, including:

- management inefficiencies may be subsidised;
- exports may be subject to countervailing duties by other countries under WTO rules (see below);
- administrative and compliance costs with a bounty are usually significant;
- the community continues to pay the cost of assistance to these industries, with expenditure on a bounty. Bounty expenditure requires either extra taxes or forgone expenditure in other areas; and
- where a bounty substitutes for a tariff, it would involve a reduction in duty revenue and associated efficiency costs of raising alternative revenue.
Participants, too, indicated some concern regarding bounties. Bruck Textiles said:

I think it’s fair to say that we don’t generally like bounties. I would go back to the old yarn bounty scheme... It was very inefficient. It didn’t encourage you to do anything to tighten your business up, ... A value added reward, to me, is not an efficient move (DR trans., p. 3)

Similarly, Rocklea Spinning Mills indicated:

[on the yarn bounty scheme introduced in 1982] ... whilst lowering the cost of yarn to yarn consumers ... It had the unintended effect of subsidising inefficiencies, thus being a disincentive to invest, particularly for vertical companies. (sub. 50, p. 5)

As noted above, a production subsidy (bounty) and the manufacturers’ concession scheme (where the concession is transferable) would have very similar effects. However, the production subsidy:

• would be more transparent;
• would be administratively simpler, with lower transaction costs for companies;
• would have a more certain value. As discussed above, if the concession were not tradable, its value to individual manufacturers would depend on the tariff rate as well as the proportion of imports in domestic sales; and
• could be capitalised to provide a lump sum which could be used for rationalisation or modernisation.

Given the very large number of small businesses in these industries, it might be necessary to impose a threshold level of value added for eligibility. Even with a threshold, experience with other bounty schemes in other industries shows that administrative and compliance costs can still be significant. Given the large number of small and medium-sized TCF firms, avoidance of high costs of these kinds probably would require exclusion of such firms from eligibility. This would raise a question of equity, associated with the fact that data indicate that a small number of firms account for most of the industry value added. At the aggregate level, while only 14 per cent of establishments reported annual value added greater than $1 million, they accounted for over 80 per cent of all value added. Only 8 per cent of establishments reported annual value added greater than $2 million, but these accounted for over 70 per cent of total value added.

Administration and compliance costs assume significance when bounty rates are low. Two recent Industry Commission Inquiries examined these issues in the context of existing bounty schemes applying for book printing, and in the production of machine tools and robots. In the case of book printing, the
Commission found that a bounty rate of 4.5 per cent was low enough for administration and compliance costs to offset significantly any of the possible economic efficiency benefits of the bounty. In the Machine Tools and Robotics Industries Report, the Commission estimated that administration and compliance costs could be up to 15 per cent of the value of a 5 per cent bounty.

In the context of the Book Printing bounty, the ACS indicated that bounty administration costs could possibly be halved if several cost-saving methods were implemented — such as the introduction of an electronic interface.

A TCF production bounty could be designed which had relatively low administration and compliance costs. It would need to:

- be based on a threshold of value added greater than $1 million per year;
- be non-discretionary;
- be based on standardised value added arrangements, analogous to those designed for the ICS; and
- use standardised electronic information and funds transfer technology.

10.5.3 Innovation

Participants argued that some firms in the more capital-intensive areas are as technically efficient as any in the world, and that there had been investment in developing new equipment and technology. The examples were in areas such as wool scouring and carpet production. However, it appears that this has been restricted to a relatively small part of the industry. Historically, research and development (R&D) expenditures in these industries have been low relative to other manufacturing industries. This may be because the bulk of such expenditure is not eligible for existing R&D promotion programs (see Chapter 1).

R&D expenditures in TCF industries have been low relative to those in other manufacturing industries in Australia and restricted to a narrow range of products and firms. In part this may be because much of this expenditure is not eligible for existing R&D promotion programs (see Chapter 1). Also, high levels of protection against import competition probably have discouraged innovation (This is another reason to favour further reductions in assistance). Innovation in both products and processes must play a key role in determining the future competitiveness of these industries. It is therefore important that the framework for R&D be improved in TCF.

Australia is a small player in most segments of world TCF production. It is entirely appropriate that we take advantage of technological advances
elsewhere. However, Australia is the major producer of apparel wool, which accounts for a relatively small part of world fibre production. If Australia does not support wool textile research, it is unlikely to be undertaken elsewhere. However, the weakness of wool textile production in Australia, and the poor linkages and relationships along the production line outlined in this report do not provide a good basis for much private sector wool R&D.

Chapter 1 has outlined some of the problems which have led to a situation of significant under-provision of R&D in wool textile research in the past. It is critical for the future of wool textiles, and therefore for the wool industry as a whole, that wool textile research be placed on a more secure and strategically focussed basis. It is also important that those companies which are engaging in wool textile R&D, such as the development of various wool/cotton blends, be encouraged more than they have been to date. It seems likely that the narrow focus of the International Wool Secretariat and the Australian Wool Research and Promotion organisation and its predecessors has not served the wool industry, the wool textile industry, or the nation well.

10.5.4 Redundancy allowances

The industry has argued that redundancy costs represent a significant impediment to further rationalisation and restructuring in the industry (see Chapter 4). The TFIA and other participants have called for government assistance in meeting these costs during a restructuring phase:

[A big impediment to restructuring is the large and growing contingent liability for restructuring payments. ... In many cases, [it] is more than paid up capital. Companies seeking to downsize have found that redundancy payouts as prescribed by the current awards have absorbed a considerable portion of their capital reserves. [There is a need] to immediately implement measures to assist firms to meet their redundancy liabilities to facilitate further desirable restructuring. (sub. 66, p. 32)

There are several problems with assistance tied to one factor such as redundancies. First, it is likely to create a set of incentives which may not be compatible with the goal of a gradual restructuring of the industries. Such assistance may accelerate labour retrenchments, placing greater stress on the rest of the economy to absorb displaced workers, in a sense defeating one of the purposes of the phasing of the tariff reductions. It would reward employers who lay off workers compared with those who are more innovative in their attempts to maintain the size of their workforce.

Second, the assistance is likely to create inequities between firms — those which already have borne redundancy costs and those which would be assisted
and between workers: those leaving these industries and those leaving other industries.

Third, award redundancy provisions do not appear to be overly generous. As discussed in Chapter 4, award redundancy provisions are a maximum of eight weeks’ pay. Redundancy costs are a standard condition of employment, and should have been allowed for on an ongoing basis. Providing assistance for redundancies essentially rewards companies for failing to pursue prudent management practices. Some companies have indicated that they have negotiated redundancy clauses in enterprise agreements which are considerably more generous than those in the award, and that these costs were now preventing the company from pursuing efficiency gains through downsizing. These agreements can be renegotiated in the future. Some companies indicated that there were likely to be practical difficulties associated with renegotiation. For example, Yakka said:

... there is a wide gap between the award based conditions and those that have been negotiated and agreed as a result of past union actions ... [there would be] industrial action if they believed that such long standing entitlements were about to be withdrawn. (sub. 257, p. 2)

Similarly, Godfrey Hirst said:

The Commission dismisses the cost of further adjustments to the labour force. In the case of redundancy payments, they conclude that what can be negotiated into the EBA’s and Awards can be negotiated out. This seems to demonstrate a complete lack of understanding of Australian Industrial relations. (sub. 226, p. 13)

The Commission recognises that there is the potential for conflict whenever conditions of employment come to be renegotiated. But there does not appear to be an argument for government assistance for this particular aspect of workplace negotiation that could not be applied also to other conditions of employment.

Fourth, there are a number of market-based options for firms facing high redundancy costs. The capital market can provide funds for restructuring and redundancy costs: no evidence has been provided of market failure in this regard for enterprises which are to continue in production. Furthermore, some large companies which are reducing their scale of operation may be able to write off their redundancy costs over a number of years against their future income.
10.6 Conclusion
The Commonwealth Government still provides more tariff assistance to the TCF industries than to any other industry sector in the economy. Although assistance has declined significantly since 1989, past protection has been an important driver of the industries’ current shape.

Assistance levels prevailing in 2000 will impose significant costs. In particular, tariffs:

- impede the performance of TCF industries;
- inflate the prices of clothes, shoes and household textiles for households and other users by between $800 million and $1.4 billion per year;
- directly reduce the competitiveness of activities which use TCF products;
- indirectly damage other businesses, especially exporters and export-oriented regions; and
- tie up scarce resources that could be used more productively elsewhere in the economy.

Arguments for a tariff pause need to be weighed against these costs, particularly given that a pause would:

- delay the gains from reform;
- send a signal to other countries and other industries that reform is on hold; and
- not arrest the long-term downward trend of employment in these industries.

In addition to tariff pause proposals, participants have argued for a range of budgetary assistance measures. In conjunction with a tariff pause, these would involve an increase in assistance from 2000 levels, at least until 2005.

The Commission believes that if the Government wished to provide additional adjustment assistance, several principles should be observed, including that it should:

- facilitate adjustment;
- be temporary;
- be non-distortionary;
- be equitable;
- be targeted; and
- be transparent and simple to administer.
11 Future assistance arrangements
11 FUTURE ASSISTANCE ARRANGEMENTS

The current assistance program for TCF manufacturing industries will end on 1 July, 2000. The Government has asked the Commission to report on options and an implementation strategy for the assistance arrangements that should apply from that date. The Commission is required to aim to improve the overall performance of the Australian economy and to consider how the industries will evolve within the world trading environment of the next decade, Asia Pacific Economic Cooperation (APEC) forum developments on market liberalisation, and the timing and extent of cost reductions from other microeconomic reforms.

The Commission has also been requested to have regard to the Government’s desire to encourage the development of sustainable, prosperous and internationally competitive TCF manufacturing activities, to improve their overall economic performance, to provide good quality, competitively priced TCF products to Australian consumers, and its commitment to abide by Australia’s international obligations and commitments. It is clear from the material presented in this report that achieving these ends will require a new, multi-faceted policy approach for the decade beyond 2000.

11.1 The new policy environment for Australia’s TCF sector

The current assistance program has stimulated massive change in Australia’s TCF industries. As Chapter 1 has pointed out, the manufacturing sector has undergone significant structural change, with rationalisation, changes of ownership, modernisation, improved processes and products. Those parts of the industries which were insulated from international competition are becoming more global in their outlook. Exports have expanded rapidly, many Australian producers have established plants offshore and use of imports has increased in many areas. As the industries become more focused on capital-intensive, higher technology and higher quality products, the need for a more highly skilled workforce is being recognised. Low-skilled labour-intensive activities are being wound down with a substantial reduction in factory employment of such workers.

Wholesaling and retailing also are being transformed. Not only are they growing significantly, but linkages are being developed along the production and distribution chain for quick response and to develop product ranges. Developments in information technology are now allowing design,
manufacturing, marketing and distribution to be physically separated but managed in an integrated way.

Australian TCF industries are now much more a part of a global market. The array of interventions by many governments to assist various parts of their TCF manufacturing industries is being wound back as outlined in Chapter 7. Implementation of the Agreement on Textiles and Clothing (ATC) by the end of 2004 will end the export restraints which the US and EU imposed on developing country members of the World Trade Organization (WTO). Developed country members of APEC are committed to free trade and investment by 2010.

These transformations of the world TCF trading environment create exciting opportunities for stakeholders in Australian TCF activities as well as enormous challenges. The Commission’s aim in this inquiry has been to develop a mix of policies and implementation strategies which provide the greatest net gain to the Australian community.

There is still much to be done before many sections of Australia’s TCF manufacturing industries are established as sustainable, prosperous and internationally competitive. While much has been achieved in the last ten years, Chapter 1 has shown that performance of both industries and companies has been quite uneven. Some are highly profitable and well managed — others are not.

11.2 Towards a more predictable environment

Policy uncertainty has diminished the capacity of TCF producers to make commercial decisions about their future development. Participants were critical of the numerous changes that occurred to the current Industry Plan.

Uncertainty is not a recent phenomenon. Between the time of the establishment of the Tariff Board in 1921 and the 1986 IAC Report on TCF industries, there were around 500 separate reports to Government on TCF assistance, many resulting in decisions on support. In the 20 years to 1986, there were more than 60 Government decisions affecting some or all parts of the TCF industries in particular. While many — probably most — of these inquiries and reports were at the request of sections of the industry, they have generated an uncertain investment climate. Often what has favoured one section of the industry has disadvantaged other sections.

In the Commission’s view, the uncertainty created by constant Government changes to assistance arrangements for these industries has made it more difficult than it otherwise would be for firms to develop long-term investment
strategies. It continues to have a detrimental impact on firms’ willingness to plan for the future. The Federated Tanners’ Association said:

The industry needs to know clearly what represents Government policy and that, once in place, such policies will live out their full life. What is totally unacceptable for industry is a policy climate of constant change and uncertainty, in which any concerted commercial dealings are impossible (sub. 92, p. 4).

Similar comments were made by the Australian Chamber of Manufactures (ACM) (sub. 87) and Diamond Cut (sub. 7).

The Carpet Institute discussed the uncertainty of arrangements into the next century as a critical factor influencing current investment decisions:

[Although the] carpet manufacturers expect to spend a further $50 million between now and 2000 in recurring investment expenditure ... most new investment expenditure has been stalled pending the outcome of this inquiry (sub. 120, p. 5.6)

The Commission is strongly of the view that the industries need a more certain policy framework to allow them to move forward. This report therefore sets out a policy agenda for the next decade.

A number of participants argued, as part of their justification for a pause in tariff reductions, that further reform should be conditional on another review in 2004. The Commission considers that such a review is not only unnecessary but would be counterproductive.

It has been argued that such a review is necessary to ensure that trade liberalisation through the WTO and APEC is on track. As explained in Chapter 7, these arrangements are very wide in scope; they are not TCF-specific. Even the WTO ATC was negotiated in the context of a number of other agreements of the Uruguay Round. Non-compliance would have wide-ranging implications extending well beyond TCF — for example, it could have ramifications for the protection of intellectual property. The Commission can see no basis for a TCF-specific review of international trade arrangements in 2004 or, indeed, at any other time over the next ten years.

The Government has no control over the uncertainties faced by these industries which are brought about by powerful world market forces. However, the Government is able to minimise uncertainties which are related to changing domestic policy. Committing the new assistance program to legislation and inscribing it in Australia’s APEC Individual Action Plan would increase confidence in the policy. This should be the last inquiry into assistance to Australia’s TCF industries.
**Recommendation**

The policy adopted by the Government for these industries should be the last sectoral program to apply to them. The program for changes to assistance should be legislated and tariff reductions inscribed in Australia’s APEC Individual Action Plan.

### 11.3 Tariff reform options

In developing its options for tariffs beyond 2000, the Commission has considered:

- the economy-wide benefits of tariff reform;
- adjustment costs;
- the need for greater policy certainty for the TCF industries;
- the government’s desire for sustainable, prosperous, internationally competitive TCF industries;
- the government’s desire to provide good quality, competitively priced TCF products to Australian consumers;
- Australia’s commitment to free trade by developed APEC economies by 2010; and
- providing the greatest opportunities for growth in the activities where TCF industries are most competitive internationally.

The Commission considers that the only long-term solution is for TCF tariffs to be reduced to the general tariff rate for manufacturing (currently 5 per cent) in time to meet the APEC timetable. It has not been convinced that the TCF industries should receive special assistance in the longer term. Few participants have argued that they should. Indeed, the TFIA and other major participants all agreed that the end point of the tariff reform process should be free trade by 2010 (albeit after a review of other countries’ progress).

Each of the options considered involves a maximum tariff of 5 per cent by 1 July 2008. Some parts of the TCF sector already have tariff rates no higher than 5 per cent. This approach provides a decade from the likely time of the Government’s policy announcement for the industries to plan and prepare for the change. The main issue is the path and rate of tariff reductions which should be adopted from July 2001 so as to meet the 2008 end point and the free trade commitment by 2010.
The Commission has considered three options and related implementation strategies for reductions in barrier assistance after 30 June, 2001. The three options are:

- a steady reduction in all TCF tariffs to 5 per cent by 1 July 2008. Policy by-laws would be abolished at that time;
- a steady reduction in tariffs on finished goods (ie. clothing and footwear) to 5 per cent by 1 July 2008; and from 1 July 2001, revocation of policy by-laws, a reduction of tariffs on all intermediate inputs to zero, with a compensatory production bounty applied to all intermediate inputs from that date; and
- a ‘tops down’ option with the tariff on clothing and certain finished textile products phasing to 15 per cent by 2004, while other tariffs were held at their 2000 levels, after which all tariffs would be reduced in steps to 5 per cent by 1 July 2008. Policy by-laws would be abolished on 1 July 2008.

### 11.3.1 Option 1: Steady tariff reduction on all TCF products to 5 per cent by 2008; policy by-laws abolished in 2008.

There are significant costs associated with high tariffs, but there are also costs associated with adjustment. For that reason, the Commission favours a gradual reduction in tariffs rather than a sharp reduction from 2001.

Similarly, while there is reason to remove distortions associated with the policy by-laws, to do so from 1 July 2001 may involve significant adjustment costs. For end users — which include the majority of domestic clothing manufacturers — it would mean a significant reduction in effective rates of assistance. This is because they would be paying tariffs on inputs which previously entered duty free under by-law. For intermediate producers competing against imports under by-law, it would impose a double adjustment: effective protection would increase significantly in 2001 because competing products would be paying a tariff where previously they entered duty free under by-law, before declining in line with the phased reduction in tariffs. The Commission has been unable to establish the likely magnitude of these adjustments. However, they may be significant and therefore may outweigh any efficiency gain if the by-laws were abolished from 1 July 2001. Consequently, under this option, by-laws would be abolished from 1 July 2008.

This option sees all TCF tariffs reach 5 per cent by 2008. For clothing and finished textiles, tariffs would fall from 25 per cent from July 2001 to 5 per cent in 2008. For footwear and other textiles (such as fabrics), the reduction is very
gradual. Tariffs for these commodities reach 5 per cent at the same time (2008) but from their July 2001 level of 15 per cent. The Commission believes that this different rate of reduction is necessary to remove allocative inefficiencies associated with differential tariffs.

Table 11.1: Option 1 - Tariff rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing and other finished textiles</td>
<td>25</td>
<td>22</td>
<td>19</td>
<td>16</td>
<td>13</td>
<td>11</td>
<td>9</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Cotton sheeting and fabrics</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Carpet</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear parts</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other (eg yarns)</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

This option has the advantages of simplicity and gradual reductions in assistance, and results in uniform TCF tariffs by July 2008. However, the anomalies inherent in the by-law system remain until their abolition in July 2008. For the clothing sector, this continues the situation where there are two types of manufacturing, with significantly different levels of assistance. For those using inputs imported under by-law, effective rates of assistance are considerably higher than the industry average.

For the fabric sector, there are also two ‘classes’ of manufacturing in terms of assistance levels — that which competes with duty-free by-law imports and that which is protected by the tariff. For that competing with duty-free inputs, the assistance provided by the tariff on output is in practice zero, and because there is a 5 per cent tariff on inputs, the effective rate of assistance is negative.

11.3.2 Option 2: Tariff reduction on clothing and footwear to 5 per cent by July 2008; zero tariff on intermediates from July 2001; textiles and yarn bounty from 1 July 2001 to 2008.

This option has been developed as a means of addressing some of the anomalies in assistance inherent in the existing tariff and by-law system. As discussed in Chapter 6, relatively high tariffs on the output of user industries, together with the availability of duty-free inputs under by-law, mean that assistance levels are considerably higher than they otherwise would be for manufacturers using the by-laws. Similarly, assistance levels for domestic fabric manufacturers
competing against by-law imports are significantly less than is apparent from looking at the applicable tariffs.

Option 2 comprises three linked elements:

- the tariff on fabrics and yarns to be reduced to zero from July 2001 (making by-law entry irrelevant) with by-laws being revoked at the same time;
- a bounty to be introduced on fabrics and yarns in order to replace the tariff on these items to provide a level of assistance comparable with that under the tariff reduction program specified in Option 1; and
- tariffs for clothing, finished textiles and footwear to be reduced to 5 per cent by 2008 as in Option 1.

To the extent that the by-law system has encouraged the use of certain types of fabrics at the expense of others, domestic production of some products may have been discouraged. This option would remove that bias.

The bounty would be based on value added and would not be able to be capitalised.

A variant of Option 2 would be to remove the policy by-laws without providing the compensatory bounty. As discussed above, such an approach may involve significant adjustment costs for the intermediate sector, which may outweigh any efficiency gain from removing the by-laws.

### Table 11.2: Option 2 — Tariff rates and bounty

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing and other finished textiles</td>
<td>25</td>
<td>22</td>
<td>19</td>
<td>16</td>
<td>13</td>
<td>11</td>
<td>9</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Cotton sheeting and fabrics</td>
<td>15</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Carpet</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear parts</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other (eg yarns)</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bounty on yarns and fabrics (%VA)</td>
<td>na</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>estimated cost ($m)</td>
<td>na</td>
<td>68</td>
<td>61</td>
<td>54</td>
<td>48</td>
<td>41</td>
<td>34</td>
<td>27</td>
<td>14</td>
</tr>
</tbody>
</table>

**Note:** Assumes no change in output over life of bounty.

**Source:** Commission estimates
**Impact on manufacturers of clothing and finished textiles**

Under Option 2, the effect on assistance to the manufacture of clothing and finished textiles will differ from Option 1 because of the removal of the by-law system. For manufacturers using fabric inputs imported under by-law, there would be no significant change in assistance levels, other than that due to the reduction in tariffs on output. For other clothing and finished textiles manufacturers, effective rates of assistance would increase in 2001 (because of the lower costs of their inputs) before declining again due to the ongoing reduction in the tariff on output.

**Impact on manufacturers of intermediate products (fabrics and yarns)**

For some fabrics, tariff assistance would fall from 15 per cent to zero in 2001. Not all fabric production would be affected by this change. Any lightweight cotton or synthetic fabric produced in Australia receives no protection from the tariff due to significant imports under by-law.

If the tariff on fabrics were to fall to zero from 15 per cent in 2001, some (but not all) fabric producers would be faced with a substantial reduction in assistance levels. Similarly, the removal of tariff protection on yarns would mean a fall from 5 per cent to zero in assistance for yarn products, except for the producers of cotton and synthetic yarns, which have been imported duty-free under by-law or under the tariff concession system (TCS).

To compensate for the change in tariff assistance, this option envisages a bounty approximately equal to the tariff on fabrics that would have applied for the first few years under the phasing arrangements under Option 1. The Commission has estimated that a bounty, declining from 10 per cent of value added in 2001 to 2 per cent in 2008, would provide a level of assistance (for the first few years) to all fabric and yarn producers comparable to the tariff under Option 1. On the assumption that there is no change in output of yarns and fabrics between 2000 and 2008, such a bounty is estimated to cost around $330 million over 8 years (see table 11.2).

As well as removing the anomalies created by the by-law system, a bounty has some advantages over tariff assistance, including:

- production for the domestic market would not be advantaged relative to that for export markets;
- assistance would be provided to intermediate producers without increasing prices to users; and
the cost of assistance to fabric and yarn producers is spread across the whole community instead of being borne only by the users of these products.

However, there are also some problems with bounties, including:

- exports may be subject to countervailing duties by other countries under WTO rules (see below);
- there are administration and compliance costs associated with a bounty;
- the community continues to pay the cost of assistance to these industries, with expenditure on a bounty. Bounty expenditure requires either extra taxes or forgone expenditure in other areas; and
- where it substitutes for a tariff, it would involve a reduction in duty revenue and associated efficiency costs of raising alternative revenue.

To simplify administration of the scheme, there could be a threshold on the minimum size of the bounty, based on value-added.

### 11.3.3 Option 3: Top tariffs down to 15 per cent, then reducing to 5 per cent by 2008

In 2000, while tariffs on textiles and footwear will have fallen to 15 per cent, the tariff on clothing and certain textile products at 25 per cent will still be imposing high costs on consumers and creating significant distortions in resource allocation. Effective rates of assistance for clothing will still be more than seven times the manufacturing average. Option 3 tackles these high costs first.

Option 3 involves annual reductions in the tariff for clothing and certain textile products, slower in the early years, as shown in Table 11.3. Tariffs on clothing and other finished textile products would phase down to the textiles and footwear rate of 15 per cent on 1 July 2004. During this period, tariffs on all the other products would be maintained at their 2000-01 levels. From 1 July, 2005, all would then be phased down to 5 per cent on 1 July 2008. This option would provide a breathing space for the textiles and footwear sectors.

This Option does not address the costs imposed by high tariffs on intermediate goods, particularly textiles, for user industries both with the TCF sector and in the rest of the economy, nor does it solve any of the problems created by the policy by-laws.
Table 11.3: Option 3 — Tariff rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing and other finished textiles</td>
<td>25</td>
<td>23</td>
<td>20</td>
<td>17.5</td>
<td>15</td>
<td>12.5</td>
<td>10</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Cotton sheeting and fabrics</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>12.5</td>
<td>10</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Carpet</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>12.5</td>
<td>10</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Footwear</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>12.5</td>
<td>10</td>
<td>7.5</td>
<td>5</td>
</tr>
<tr>
<td>Footwear parts</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Other (eg yarns)</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

11.3.4 Preferred option

All of these options are consistent with Australia’s trade liberalisation commitments under APEC.

The Commission favours Option 1 over Option 2, primarily because it avoids undesirable temporary increases in the effective rate of assistance to certain clothing and textile producers. Furthermore, the resource allocative gains from removing the distortions attributable to the by-law system are uncertain and may not be large enough to warrant the changes proposed, particularly given the costs associated with the bounty in Option 2.

Option 1 is simple, certain and continues the momentum of reform. Option 2 has the advantage of quickly overcoming the structural problems associated with the policy by-laws and would make intermediate goods cheaper for user industries. However, it is complex and the bounty aspect of the option has a number of disadvantages. Participants indicated little interest in it.

Option 3 involves a pause in the tariff reduction program for all but the most highly assisted sectors. It could be argued that by 2000, the footwear sector will already have been subjected to much greater reductions in assistance than clothing, and that the more capital-intensive textiles sectors with long gestation periods for investments, also could warrant a breathing space. However, by backloading the benefits of tariff reductions, Option 3 would impose higher costs for user industries and consumers than Options 1 or 2. The costs would be significantly greater if the duration of the pause were to be conditional on Australian (Commonwealth and State) and other governments’ actions.
The Commission does not favour the adoption of Option 3 as the possible gains from the pause for textiles and footwear do not appear to exceed the costs. However, as a pause option, Option 3 would be clearly preferable to the TFIA’s proposal analysed in Chapter 10 in that the costs to the economy and consumers would be lower, the momentum to reform would be maintained, and it would be more credible to our trading partners in APEC.

For the reasons set out above, Option 1 is the Commission’s preferred option.

**Recommendation**

TCF tariffs should be reduced steadily to 5 per cent by 1 July 2008, as specified in the table below:

**Preferred Option (Option 1) - Tariff rates**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing and other finished textiles</td>
<td>25</td>
<td>22</td>
<td>19</td>
<td>16</td>
<td>13</td>
<td>11</td>
<td>9</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Cotton sheeting and fabrics</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Carpet</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear</td>
<td>15</td>
<td>14</td>
<td>13</td>
<td>11.5</td>
<td>10</td>
<td>8.5</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Footwear parts</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Other (eg yarns)</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Policy by-laws should be terminated as of 1 July 2008

**11.4 Overseas Assembly Provisions Scheme**

The TCF Overseas Assembly Provisions (OAP) Scheme allows firms to assemble clothing overseas from fabric cut in Australia, the finished product being imported to Australia free of duty on the Australian content. The scheme, while small, could, if it were broader in scope, play a part in increasing international specialisation and enhancing backwards linkages to textiles, yarn and leather (see Chapter 6).

It makes economic sense not to levy duty on the Australian content of goods assembled abroad. The Commission favours its expansion to a broader range of
products and processes, allowing duty to be levied only on the value added abroad for a wide range of TCF products.

Some confusion has arisen among some participants about the distinction between OAPs and the rules of origin for preferential trading arrangements under trade agreements like SPARTECA, or the US regional trade agreement with Caribbean countries. These preferential trade agreements allow duty free entry of a product as long as it meets minimum value added criteria where inputs from all countries party to the agreement are included in the value added. The rules of origin for SPARTECA, for example, are of this kind, and are described in Chapter 6. An OAP scheme is not a preferential arrangement and is not meant to provide a duty concession for value added in the assembler country. Therefore, it would be quite inappropriate to waive duty entirely. Clearly, it does not make economic sense to allow duty-free entry on the value added abroad while there are tariffs on similar goods without Australian content.

If it is to become more effective, the OAP scheme also requires some administrative simplification to remove discretionary elements and reduce administration and compliance costs.

**Recommendation**

The Overseas Assembly Provisions (OAP) Scheme should be retained but in an expanded form. Eligible processes should be expanded to include the conversion of yarns to fabrics; and of fabrics and leather to finished goods. Post-assembly processes such as labelling should also be allowable.

The discretionary elements of the scheme should be removed. Applicants could gain access to the scheme in ways analogous to the existing TEXCO/duty drawback provisions. The ACS should administer the scheme. The onus of establishing Australian content would be on the importer.

### 11.5 Effects of tariff reductions on the economy

In recommending that tariffs be reduced gradually to 5 per cent by 1 July 2008, the Commission has been concerned to advance the option which it believes will do most to improve the overall performance of the Australian economy as directed not only by the Terms of Reference, but also by the *Industry Commission Act 1989*. Major industry participants agreed that the timetable
(free trade in 2010) should be met (subject to review of other countries’ progress on trade liberalisation).

Despite the measure of agreement on the end point, the response of participants after the Draft Report was loud in protest. Many argued that the recommendation would wreak havoc in Australia’s TCF industries and in the lives of their workers and communities. In particular, it was argued that there would be a flood of imports, decimation of local industries as critical mass was lost with the decline in domestic demand for local products, a flight of capital overseas as Australian companies set up establishments in low wage countries, and massive retrenchments of workers.

Predictions of jobs at risk ranged up to the loss of the industries’ entire 100 000 workforce; more commonly, losses of around 50 000 were forecast. These predicted job losses in TCF often were projected to increase the ranks of the unemployed by the same amount. Indeed, many argued that the costs to the TCF industries were greater than the benefits that would be generated for the economy as a whole. While some argued for a slower rate of change, many sought an increase in assistance, at least transitonally, particularly through budgetary measures like the manufacturers’ concession (see Chapter 10), to save activity and jobs.

It is important to distinguish the effects of the recommendations in this report from those of other influences on TCF activity. This report has described and analysed many sources of change in the TCF sector both at home and abroad. It is quite clear that even if tariffs did not change after 2000, that would not stop change in either TCF manufacturing or the economy as a whole. Even if aggregate TCF output were maintained at its current level, significant numbers of jobs would be shed from these industries as they become more efficient, capital-intensive, technologically advanced and specialised.

The issue of whether tariff changes influence aggregate activity and employment for the economy as a whole also needs to be addressed. While it is easy to identify changes in production, investment and employment from a particular establishment, it is not so easy to see the effects across the economy. This is the case, of course, with any change. Evidence from Australia and other countries does not bear out the proposition that the overall level of employment in the economy as a whole is supported by barriers to imports.

In order to quantify the effects of assistance changes, the Commission contracted the Centre of Policy Studies (CoPS) to model the future of these industries assuming that the tariffs were to be reduced as in Option 1. A full discussion of the model and the various elements of the modelling process is contained in Appendices L, M, N, O, and IC 1997b. The modelling supports the
other strands of analysis through this report which have led the Commission to the conclusion that removing special assistance for TCF manufacturing relative to other industries, and reducing TCF tariffs to the level applying to the rest of manufacturing, will improve the efficiency with which resources are used in Australia, and thereby in the long run increase the country’s income and wealth. It also supports the conclusion that the policy will have some adverse effects on particular parts of TCF manufacturing, their workers and communities, particularly in the short term. These conclusions are also supported by the modelling commissioned by the TFIA, although the methodology is somewhat different.

The long-term model results are also applicable to other options which have the same end point of reducing TCF tariffs to the general rate of 5 per cent. Although the time path of adjustments would be slightly different for other options which had different rates of tariff change, the differences are not substantial in the long run as the same ultimate benefit is obtained when tariffs fall to 5 per cent.

The model uses very conservative assumptions and does not capture some of the efficiency-increasing dynamic effects of tariff changes on industry behaviour. Nor does the modelling allow for long-term changes in the employment/unemployment rate — it is assumed that increases in real wages eventually negate long-term employment increases. If this conservative assumption were not used, the long-run gains would be much greater.

The long-run annual increase in aggregate real consumption resulting from lower TCF tariffs is estimated to be approximately $110 million (at 1995-96 prices). That is, in 2013-14 and in every year thereafter, real aggregate consumption is estimated to be $110 million higher than it would be otherwise if tariffs were maintained at their 2000 levels (the base case). Similarly, annual real GDP is estimated to rise by around 0.02 per cent, or about $120 million by 2013-14, compared with its level if tariffs were not reduced beyond 2000.

However, TCF manufacturing output is estimated to grow more slowly than the economy as a whole. As a result of the Option 1 tariff cuts, TCF output is estimated to be around 7 per cent lower in 2013-14 than it otherwise would have been. Consistent with past trends, employment continues to fall in the model, although the declines in employment caused by the tariff reductions are estimated to be small relative to the decline that is projected to occur anyway if tariffs are maintained at their July 2000 levels (about an extra 6000 jobs, compared with the loss of 27 000 which is expected to occur even if tariffs were not reduced after 2000-01). This relatively small additional loss of TCF
employment associated with post-2000 tariff reductions is spread over the 13 year period.

Over the 13 years to 2013-14, most of these employment reductions are estimated to occur in the clothing industry, which the model estimates will shed an extra 4400 jobs on top of the 15 000 jobs which are estimated to be lost regardless of further tariff reductions beyond 2000-01. A further 1000 jobs are estimated to be shed in the textiles sector as a result of tariff reductions, and an extra 500 jobs in the footwear sector.

Clothing output is estimated to be about 13 per cent less than in the base case. The textiles industry is estimated to experience a smaller decline in output compared with the base case, of approximately 3 per cent. Footwear output is estimated in the model to be reduced by approximately 7 per cent.

An important difference in the model between the duration of the gains and the losses is often overlooked. Unlike the long-run gains in real consumption, which are sustained beyond 2013-14, the costs in terms of lost TCF employment are transitional. They are complete by 2013-14, by which time they will have been offset by employment gains elsewhere in the economy.

The model shows that the reductions in tariffs on TCF products ultimately lead to slight changes in output for most non-TCF industries, although most of the projected output changes are so small as to be barely noticeable except in aggregate. No industries outside TCF manufacturing are projected to suffer significant adverse effects. Overall, the gains, while small as a proportion of GDP, outweigh the losses.

A number of industry participants and the Victorian and South Australian governments have argued that the modelling indicates that the gains are small relative to the adjustment costs, implying that Australia would not be better off by further trade liberalisation in TCF. Some industry participants indicated that they did not believe that resources would be reallocated within the economy in response to tariff changes and used more efficiently. They felt that resources released from TCF would either become unemployed or shift offshore, resulting in a net loss to the community. They provided no substantiation for these ‘feelings’.

The Australian and world economies are growing and structural change is occurring. Employment opportunities have been increasing both in number and scope. That is not to say that displaced sewing machinists will get jobs as computer programmers or coal miners, but rather that the loss of job opportunities in TCF manufacturing will be compensated for by growth in opportunities for others in other industries, and in other geographic areas.
The importance of this was highlighted by primary industry and consumer groups. They supported the Commission’s conclusion that Australia would be better off if TCF tariffs were reduced gradually to the level applying to the rest of manufacturing. There are clear gains to the economy as a whole, and to the Australian people, from completing the job of tariff reform. However, in the process, it is important to recognise the human costs of the changes that will occur, and take steps to mitigate them.

11.6 Adjusting to the new policy environment

All parts of the TCF industries, whether they be workers, manufacturers, distributors, or suppliers of goods or services such as education and training, research and development, information technology and finance, will be challenged by reduced assistance to TCF manufacturing. While some companies are at the forefront of world best practice, most Australian companies in this sector are not. Considerably more rationalisation, restructuring, investment and innovation will be necessary to improve the range, design and quality of products and services and reduce costs. The fragmentation that has characterised these industries in the past will have to be overcome. Some of the improvements will have to come from other supplying industries, such as the wool industry.

Clearly, the peak industry bodies such as the TFIA and the Australian Leather Industries’ Association (ALIA), as well as relevant unions, have a key role to play. The Commission does not support the creation of another government body to oversee the renovation of the TCF sector in Australia — the performance of the TCFDA has been criticised during this inquiry. Rather, it should be up to the industries themselves to recognise and pursue their own long-term commercial interests. The Commission notes that the TFIA is taking greater interest in training and is expected to take over management of the TCF Benchmarking program. These are important steps in the right direction.

The vision and leadership for the industry should come from the industry itself; it cannot come from government. The task for governments is to provide the policy, institutional and infrastructure frameworks required to allow this sector to develop. For as long as the TCF sector is perceived, or indeed publicises itself, as weak and incapable of survival without substantial government support, labour and investment will be deterred.

This report has identified a range of problems which need to be addressed if the TCF sector is to become sustainable, prosperous and internationally competitive. Some of these problems are ongoing and need to be addressed on
a permanent basis. Education and training, research and development and export market development are examples of these. Others are transitional and arise from the adjustments that are required over the next decade. Adjustment assistance for workers and regions is particularly important in this regard.

11.6.1 Adjustment assistance for employees

The Commission expects that substantial adjustment will continue to occur in the TCF workforce beyond 2000. As in other developed countries, a number of factors are likely to lead to further reductions in the labour requirements of the industries. These changes which will occur regardless of Government decisions on tariff policy, include:

- structural change with more labour-intensive activities contracting while more capital-intensive activities expand;
- continuing technological improvements, which displace labour;
- further labour productivity gains arising from other sources, such as improved organisational and management practices; and
- continued competition from low labour cost countries, which can be expected to improve their productivity and quality performance over time.

Many of these changes, such as improvements in technology and management, while economising on labour will permit the survival of many firms which otherwise would not be able to survive competition. Thus, Australia’s TCF industries can be expected to become less labour-intensive.

Not all displaced workers will face difficulty in finding new employment, and the reduction of protection for TCF will lead to employment opportunities in other industries for other people, including the unemployed. However, the TCF labour force comprises relatively high numbers of older, less-skilled, female workers with low English language and literacy skills (see Chapters 3 and 4). These characteristics make it likely that significant numbers of displaced TCF workers will find it difficult to obtain employment elsewhere in the economy. Improving their English is a key to improving their employment prospects.
Recommendation

Information about DEETYA and DIMA English language and literacy programs should be improved with a view to increasing participation in English language training by non-English speaking TCF workers, homeworkers and jobseekers. Options to improve access should also be considered, including a voucher system to enable migrants to undertake the Adult Migrant English Program at times convenient to them without the current registration, commencement and completion time restrictions.

When workers’ lives are disrupted by remaining unemployed for long periods of time, significant costs are imposed on the individuals concerned, their families, and ultimately, the community. This also represents a substantial waste of the people’s talents and potential. Thus, government assistance for labour adjustment is justified not only for efficiency reasons but, perhaps more importantly, on equity grounds.

The Commission has examined labour adjustment issues relevant to TCF industries in some detail in Chapter 4. The Commonwealth Government provides a range of measures which could be used to improve the re-employment prospects of displaced TCF workers. These measures include special provisions for priority services for people judged to be ‘at high risk of long-term unemployment’. Given the characteristics of the TCF workforce, many displaced TCF workers are highly likely to meet the criteria used to define such risk. In terms of the design of the programs themselves, there seems no need for additional programs to meet the needs of displaced TCF workers.

However, the Government has recently restricted eligibility for employment services to recipients of social security benefits. This will restrict the capacity of displaced workers, particularly those who have received a redundancy payment or are married, to obtain employment services. It also will prevent migrants obtaining employment services in the first two years of their residency in Australia, arguably the most critical time for such services to be provided.

The Commission is also concerned that the funding provided to these general employment programs may not be sufficient to handle the needs of displaced TCF workers who are likely to require specialised services, even with the new restrictions on eligibility. Many of the workers who will be displaced are likely to be classified as being ‘at high risk of long-term unemployment’. Considerable strain could be placed on existing labour market programs. Consequently, additional funding is likely to be warranted to ensure that these people (and others in similar situations) receive adequate service.
Recommendation

Eligibility for employment services should be separated from eligibility for social security benefits so that jobseekers who are not immediately eligible for benefits (such as newly arrived migrants, people receiving redundancy payments and those with employed spouses, subject to means testing) could gain immediate access to employment services. Other eligibility criteria would still apply (e.g., means testing, unemployment duration, ‘at high risk’ assessment). This is likely to require an increase in funding for general employment services.

11.6.2 Regional adjustment issues

As discussed in Chapter 4, there are several non-metropolitan regions in Australia in which TCF firms are significant employers. A reduction in TCF activity in such regions is likely to create adverse flow-on effects throughout the local economy, at least in the short term.

There are a number of programs which are designed to assist regional areas. In particular, there are provisions in the general employment programs which allow them to be tailored to meet the needs of a particular region, or for particular groups within a region (see Chapter 4). As discussed above, significant funding increases may be necessary to ensure that such services are not overloaded by displaced TCF workers requiring intensive assistance. Funding decisions should take into account any significant regional impact of TCF activity reductions.

The Assistance to Depressed Regions Programme is available to help develop employment initiatives in such areas. In the event that further declines in TCF activity lead to significant hardship in regional areas, this program should be utilised to improve employment prospects within the region.

Recommendation

If there is significant displacement of TCF workers in a non-metropolitan region with relatively high unemployment, assistance should be provided through the program of assistance for depressed regions.
11.6.3 Further adjustment assistance for companies

TCF companies also will face considerable adjustment pressures beyond 2000. Many industry participants argued that the next phase of adjustment will involve large and discrete changes as companies and industries rationalise and restructure. They stated that this process will require physical amalgamations and company relocations, and also will entail new investment to ensure that the resulting facilities are consistent with world’s best practice. This process will require financial as well as other resources. Several participants, including the TFIA, have argued for government assistance to help ease the adjustment burden for TCF companies.

As discussed in Chapter 10, there are several arguments for such adjustment programs:

• to addresses situations in which market mechanisms fail to produce efficient outcomes. The Commission considers that adjustment assistance that is linked to research and development may be warranted on economic grounds;
• to smooth the path of adjustment and particularly to avoid ‘double adjustment’; and
• for distributional reasons.

Should the post-2000 program include capital adjustment measures, as the previous Industries Development Strategy (IDS) did? The analysis of the previous schemes in Chapter 8 urges caution. Most of the schemes were highly discretionary, involving substantial bureaucratic intervention. A number of participants have indicated that much of the money was wasted. This is a particular concern when the sums of taxpayers’ funds involved were so substantial. The largest recipient of such assistance recently announced termination of a substantial proportion of its production.

The Commission does not propose to recommend an IDS Mark II. However, if the Government were disposed to provide a program of budgetary assistance for companies, the lessons of the previous schemes discussed in Chapter 8, and the principles for budgetary assistance outlined in Chapter 10, should be considered in the design of any new program. Furthermore, the WTO Agreement on Subsidies and Countervailing Measures imposes significant limitations on industry-specific schemes.

In light of these factors outlined in Chapter 10, the Commission considers that the most transparent and least distorting type of budgetary assistance for companies would be a temporary and declining production bounty.
Finding

If the Government wished to establish a program of budgetary assistance for companies, a temporary and declining production bounty based on value added would be the least distorting and most transparent way to do it.

11.7 Other measures

11.7.1 Training

With declining levels of assistance, the TCF industries have become more technologically sophisticated, capital intensive and interested in improved quality, production, distribution, marketing and management systems, and more concerned about inadequacies in training. As Chapter 3 points out, there are serious problems in the current training arrangements and institutions. The result is a lack of strategic direction for TCF training as well as poor facilities and delivery. These problems must be addressed if Australia’s TCF industries are to reach their full potential. The Commission sees a case for introduction of scholarships to enable training overseas so that Australians can learn more from the world’s centres of excellence.

**Recommendation**

A national centre of excellence for TCF training should be established.

**Recommendation**

Travelling scholarships for study in world centres of TCF excellence should be introduced.

11.7.2 Research and development and information networking

High levels of protection against import competition probably have discouraged innovation in Australian TCF manufacturing. Research and development (R&D) expenditures on TCF have been low relative to other manufacturing industries and restricted to a narrow range of products and firms. In part this may be because much of this expenditure is not eligible for existing R&D promotion programs (see Chapter 1). Innovation in both products and processes must play a key role in determining the future competitiveness of these industries. Improved information exchange is vital to this. The framework for
R&D and information and technology development in the TCF sector should be improved.

As the barriers to trade decline and domestic producers face stronger competition from overseas, linkages and alliances between small and medium domestic producers become more important (see Chapter 1). Computer networks provide one way of overcoming the obstacle of distance and making access to information more affordable to small and medium TCF firms.

The Commission considers that there are benefits to be gained by the TCF industries from establishing an internet-based ‘virtual cluster’ through an information network which disseminates information within the TCF industries. While it is in the TCF industries’ own interests to fund, manage and operate such an information network, modest government assistance may be warranted to facilitate its early development. Funding could come from the recommended Technology Development Fund.

<table>
<thead>
<tr>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A TCF Technology Development Fund should be established, to the value of $10 million over the life of the program.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Government should facilitate the establishment of an internet-based information network to help TCF firms develop ‘virtual clusters’. Once established, the TCF industries would be responsible for funding, managing and operating the network.</td>
</tr>
</tbody>
</table>
The Commission recommends the following package of reforms, designed to improve the overall economic performance of the Australian economy and to increase the welfare of all Australians. These reforms create incentives to develop sustainable, prosperous and internationally competitive TCF industries in Australia, with benefits for Australian consumers and taxpayers. These reforms also ensure that Australia meets its international obligations and commitments.

The Commission’s major recommendations and implementation strategy are:

This should be the last sectoral program to apply to these industries. The program for changes to assistance should be legislated and tariff reductions inscribed in Australia’s APEC Individual Action Plan.

A program of phased tariff reductions to 5 per cent by 1 July 2008 should be implemented without pause from 1 July 2001 (as per Option 1).

Policy by-laws should be terminated as of 1 July 2008.

Overseas Assembly Provisions Scheme should be extended and simplified.

A program of adjustment assistance should be implemented to accompany the tariff reduction program, including:

- separation of eligibility for employment services from eligibility for social security benefits so that jobseekers who are not immediately eligible for benefits can gain immediate access to employment services if needed. Other eligibility criteria would still apply. This is likely to require an increase in funding for general employment services;
- use of the program of assistance for depressed regions if there is significant displacement of TCF workers in non-metropolitan regions with relatively high unemployment;
- the establishment of a national centre of excellence for TCF;
- the introduction of travelling scholarships for study in world centres of excellence in TCF;
- the establishment of a TCF Technology Development Fund of $10 million over the life of the program; and
- the establishment of an internet-based TCF information network.
PART E

MR BRASS’ ALTERNATIVE ANALYSIS

12 Context of my alternative analysis

13 Essence of my alternative view

14 The evidence and arguments underpinning my TCF policy recommendation
12 CONTEXT OF MY ALTERNATIVE ANALYSIS

12.1 My background in TCF: perspective on the IC’s inquiry

My background in textiles, clothing and footwear (TCF) spans the range of TCF manufacturing and distribution operations. It began in the mid-1960s with a family footwear business and, in 1987, I was appointed Managing Director of Pacific Dunlop, retiring in 1996.

Currently, I am Chairman of N M Rothschild & Sons (Australia), a major integrated financial services house.

I am a long-standing advocate of efficient industry and free trade. My personal credentials in this area include reducing the reliance of Pacific Dunlop on domestic production by introducing foreign sourced product into the marketing mix and appointment by the Prime Minister as an Australian business representative to the Asia-Pacific Economic Co-operation (APEC) Business Forums in 1993, 94 and 95.

I was appointed to this Inquiry on the strength of my background in management in Australian TCF industries and, as a long-standing participant in the sector, I bring commercial experience, understanding and judgment to the Industry Commission (IC). This is very important as:

a) the observations, analysis and recommendations of the Inquiry must be measured against worldly knowledge and insight to ensure that its output is sound; and

b) the future of Australian TCF will depend largely upon the interpretation and reaction of business people to the recommendations of this Inquiry.

I quote industry submissions to the IC extensively as the sentiment expressed by TCF participants is more than an ephemeral factor: it is a major determinant of the future of the Australian industry.

I am not equipped to mount technical arguments in relation to econometric models or present an alternative to Monash University’s Centre for Policy Studies’ model. However, I will express my concerns regarding the modelling exercise.
12.2 Agreement on the end point of TCF reform initiatives

I appreciate:

a) the importance of removing the economic burden of protection from the broader community, in terms of both consumer tax equivalent (“CTE”) costs on TCF goods and the overall effect of tariffs on aggregate consumption;

b) the imperative of certainty of policy for investment in the TCF environment; and

c) that Australia’s treaty obligations are inviolable.

To be fair to industry and other interested parties who have appeared before the IC, I think there is a general consensus on the end point for Australian TCF in the year 2010.

The major areas of difference relate to balancing competing policy objectives, particularly:

... improv(ing) the overall economic performance of the Australian economy; (Terms of Reference, 2nd paragraph);

and

... encourag(ing) the development of sustainable, prosperous and internationally competitive TCF manufacturing activities in Australia; (Terms of Reference, 3rd paragraph),

in the pace and process of tariff reform.

I too favour reduction of trade barriers and competitive, unprotected Australian TCF, but can no longer support the concurring Commissioners in relation to continuing, unilateral tariff reduction from 2000 through 2008, even with a bounty of the kind I described in the IC Draft Report.

12.3 The IC draft report and Monash model projected high benefit/low cost unilateral tariff reform

The observations and analysis of the IC Draft Report founded a recommendation of steady, unilateral tariff reduction from 2000 through 2008.

It was projected that this policy would be of:

a) major benefit to the Australian economy, eliminating a “headline” $1.9 billion burden upon consumers associated with tariff levels in
the current year and an annual welfare cost of $110 million at 2013-14; and

b) modest cost to TCF industries, in terms of job losses of 5 000 to 6 000 (forecast deviation from a “base case”, assuming tariffs at 2000 levels and elimination of the Import Credit Scheme (ICS), which depicts some ongoing job losses).

The result, though contra-intuitive in places, was to be corroborated by the then partially-complete Monash model.

12.4 The IC draft report analysis and model called into question

New factors have emerged since the IC Draft Report was released on 30 June 1997, particularly:

a) The observations and arguments put in submissions to the IC questioning assumptions, logic and conclusions of the IC Draft Report and the Monash model, which I find compelling in many respects, together with the contrary findings of competing models;

b) Vehement opposition to the IC Draft Report in submissions from manufacturers, industry and welfare bodies, local and state governments, and criticism by commentators and the press, who have no direct interest in the direction of tariff policy;

c) The likely reaction of decision makers in Australian TCF industries, shareholders to whom they answer and financiers upon whom they depend, to the measures prescribed in the IC Draft Report, i.e. steady contraction and exit from Australian TCF industries; and

d) The silence or muted support for the IC Draft Report from consumer groups and other parties with direct interest in reduction of TCF tariffs, particularly those sectors of the economy supposed to benefit from reduced TCF input costs.

I am concerned by aspects of the IC Draft Report and Monash model and I query some of their outcomes. I note that my fellow Commissioners have revised the findings and recommendations of their report, too, reflecting the merit of evidence and argument put in response to the IC Draft Report.

Further, it has become apparent to me that while the concurring Commissioners have considered commercial and social issues, they
are constrained by the limits of what they regard as good economic analysis.

I respect this discipline, but I cannot confine myself to the same threshold where there is a compelling commercial or social objective that might be advanced by TCF policy which falls within the terms of this Inquiry.

12.5 The IC draft report strategy will ultimately be low benefit/high cost

Given the failure of the Monash model to substantiate conclusively the projected effects of the policy prescribed in the IC Draft Report and contrary evidence and analysis in submissions and competing models, I have revised my view of the costs and benefits of ongoing, unilateral tariff reduction. I now suspect that such a policy would be:

a) of modest, perhaps marginal and dubious, benefit to the Australian economy, when measured accurately and appropriately; and

b) very high cost to TCF industries, regions and disadvantaged sections of the Australian community, particularly in the social and human toll of major job losses.

I cannot agree with the concurring Commissioners’ view that unilateral tariff cuts from 2000 through 2008 will encourage “sustainable, prosperous and internationally competitive” TCF or substantially improve the “overall economic performance of the Australian economy”.

However, neither can I agree with many of the popular views and recommendations put in submissions to the IC.

Fundamentally, the IC and TCF industries agree upon the objectives of tariff reform and desirability of free trade. They differ in relation to pace and process for achieving the end point. I have come around to a view that straddles both sides of the debate, incorporating individual policy elements that add value to a comprehensive TCF strategy.

12.6 The original bounty proviso in IC draft report not viable

My proposal to attach a bounty to the concurring Commissioners’ original recommendation:
a) has not attracted support, either from my fellow Commissioners or the industries which are the subject of this Inquiry, and therefore cannot stand alone as a viable policy option; and

b) cannot be adapted to the views I have formed following submissions to the IC responding to the Draft Report.

Therefore, I have to revise my views. I do, however, continue to advocate a program of positive dedicated assistance for:

c) investment to transform Australian TCF businesses to compete in viable sectors and niches in the free trade environment of 2010; and

d) the further development of export markets, following the end of the Import Credit Scheme.

12.7 Alternative analysis required given my revised views

Given the divergence of my views on the future of TCF industries with those of the other Commissioners, I cannot express a differing opinion effectively in the text of a larger report. Hence, this alternative analysis and its recommendations.

I accept the observations, analysis and conclusions of the other Commissioners, except where expressly or impliedly inconsistent with this analysis. I will also expressly endorse certain observations and recommendations of my fellow Commissioners for emphasis or clarity.

Abbreviations used in this alternative analysis have the same meaning as those used in the concurring Commissioners’ report.

I thank all those who have made submissions to the IC and the people I have consulted directly in relation to this Inquiry, particularly, my Rothschild Australia colleagues Dr Ric Simes, Chief Economist, and Ben Cowen, Manager.

My thanks to the IC and its staff for their courtesy and consideration and the assistance offered to me. I appreciate the professionalism of the IC to allow me an independent view with good grace and goodwill.
13 ESSENCE OF MY ALTERNATIVE VIEW

13.1 My vision of TCF in 2010

It is important to have a vision for Australian TCF in 2010 as, in a practical sense, the vision is the objective of the policies and processes under consideration. The Draft Report was criticised for lack of a vision, which was a serious oversight.

My vision of Australian TCF industries in 2010 is set out below.

I hope and expect that APEC will achieve free trade in TCF in accordance with the 2010 timetable. The corruption of international trade has a distorting effect upon economies worldwide, depressing real incomes and aggregate consumption in both developed and developing countries. There are concerns and suspicions in relation to the relaxation of trade barriers, but I am confident that the merit of free trade and international pressure to bring it about will compel nations to progressively dismantle barriers.

In the free trade environment of 2010 and beyond, I foresee viable Australian TCF industries, with strong operational and financial performance, high levels of capital investment and secure employment. Those industries will be different from current, tariff-protected operations in a number of respects:

Firstly, Australian industries will not span the range of TCF activities, comprehensively.

Rather, they will occupy select sectors and niches in which we enjoy international competitive advantage. This advantage may occur in areas including:

a) adding value through processing Australian primary output, such as wool and cotton;

b) capital intensive operations;

c) proprietary or technology-driven products or processes;

d) access to high quality inputs and/or specialised labour for high value-added product;
e) vertical and/or horizontal integration sufficient to found major economies of scale;

f) ability to supply local markets quickly and responsively, particularly in fast moving fashion lines; and/or

g) uniquely Australian branding, design or fabrication.

Secondly, within businesses, there will be a high level of offshore sourcing for specific elements in the production process, to complement cost-competitive domestically produced elements.

In competitive environments, businesses cannot favour production options which are not cost-effective. Well managed TCF businesses determine the siting/sourcing of production/procurement using “cost sheets”, which set out the costs of domestic, import and hybrid, i.e. Overseas Assembly Provisions (OAP), alternatives, side-by-side.

I foreshadow that, in the highly competitive free-trading environment post-2010, Australian TCF production will not be vertically integrated within organisations, but consist of many distinct elements or sub-processes each sited/sourced on the basis of cost/quality. This occurs today, to a limited extent.

In fields in which Australian TCF is not competitive, elements or sub-processes will be imported to supplement viable Australian elements or sub-processes. Accordingly, viable Australian elements or sub-processes will draw upon one of the sources of competitive advantage referred to above. Businesses specialising in a particular element or sub-process are better placed to achieve meaningful economies of scale.

The ability to split procurement and production functions on this basis will be critical to the success of domestic TCF industries.

This phenomenon underscores the importance of the OAP and the need to ensure it remains relevant to decision-makers in Australian TCF. If tariff reduction reduces the impact of the OAP incentive, production will be lost off-shore notwithstanding that distinct domestic elements or sub-processes are cost-competitive.

Thirdly, Australian TCF industries will not generally be labour-intensive.

The labour cost differential between Australia and low cost economies is a major competitive weakness and we will not continue to employ the same number of people in rudimentary TCF processes.
However, there will be a major migration in the TCF workforce from labour intensive processes to sectors and niches of competitive advantage, provided that the industry’s transition is managed properly, with a minimum of trauma. Re-skilling will be required.

Inevitably, there will be some overall loss of jobs in TCF. This Inquiry has a responsibility towards preserving properly remunerated employment in viable TCF industries.

*Fourthly, TCF industries will continue to support regional interests on a long-term basis.*

Regional centres of TCF are generally more susceptible to downturn in production and would feel the effects of the unilateral tariff cuts most acutely. I foreshadow a reduction in overall TCF activity but, with proper management of the transition to free trade, a meaningful presence will be maintained in regional industry centres.

### 13.2 Philosophy of my TCF policy

The inevitability, and desirability, of free trade is not at issue: all parties acknowledge the coming of APEC. The issues for this Inquiry are pace and process for reduction of tariffs between 2000 and 2010.

In formulating policy for reduction of tariffs on TCF products, I balance the marginal cost and benefit of competing industry strategies, related back to the terms of reference of this Inquiry.

*I dissent from the other Commissioners on the basis that the marginal economic benefit of steadily and unilaterally lowering tariffs from 25 per cent and 15 per cent to 5 per cent from 2000 will be modest, especially when measured against the benefit of major reductions effected in the late 1980s and early 90s, whereas the cost of such precipitous action will be high.*

My recommendation to hold tariff reduction for five years, pending multilateral trade liberalisation:

a) defers the meagre benefit of partly restoring allocative efficiency in one sector of the Australian economy; but

b) avoids unnecessary closures, redundancies and suffering, which represent a terrible cost at the level of communities and households,
and achieves the desired free trade objective in 2010.

13.2.1 Pace of tariff reduction

Precipitous tariff reduction will cause damage to TCF industries that could be avoided by measured progress towards free trade. Real and perceived trauma will hinder investment and many surviving businesses will be so denuded by 2010 that they will lack the critical mass to compete in open export markets.

A pause in tariff cuts between 2000 and 2005 will afford TCF sectors and businesses opportunity to prepare (principally through investment) and make smooth adjustment to a free trade environment.

Diana Ferrari, a Melbourne footwear manufacturer, put the case for a pause in these terms:

... our ability to absorb the impact of falling tariffs will rest on our strategies to become a “best practice” company and indeed a “best practice” industry. Our sustained investment in empowering people utilising new technology, and continuing to commit to new product development is the positive response to a decline in tariffs. History has taught us that these processes take time and Diana Ferrari and the industry needs this time to meet the challenge of a low tariff environment. (sub. 85)

Yakka, an Australian icon, observed that a pause affords opportunity to retain a domestic manufacturing presence:

The company will continue to pursue such improvements and is also willing to continue to invest in the industry, providing, tangible benefits can be seen into the future. The problem now is that we are dealing with changes that are not fully known and take time to implement when they can be identified. The tariff pause is an opportunity the company believes allows changes to be implemented and proven as a means of maximising its involvement in on-going Australian manufacture. Continual reduction of the tariff level will make the certainty of these changes more difficult, become an active encouragement not to try and for management to take an earlier “off-shore” option. (sub. 57, p. 2)

The TCF industry is conscious of the fact that tariff reduction from 2005 will be at approximately double the rate required
from 2000, but the speed of transition post-2005 will be manageable given:

a) experience in management of steep tariff cuts since the late 1980s; and

b) the context of reciprocal cuts in protection throughout major international markets, i.e. Australia’s export markets.

The TFIA commented in its submission:

There is absolutely no reason why tariff levels could not be reduced in yearly stages from 2006 to 2010 to meet our APEC commitments. Indeed other OECD countries are doing just that. ... To bring TCF tariffs to 5% by 2010, which many commentators and APEC countries have stated as the appropriate target would entail annual reductions of 2 per cent ad valorem points for footwear and fabrics and 4 per cent for clothing and other finished textiles. These rates would hardly be more precipitate than what has already occurred, especially when regard is also had to the removal of the previous tariff quota arrangements. (sub. 200, p. 16)

A pause is also important from the standpoint of industry morale and fostering sentiment conducive to investment.

Surely TCF industries will be more sustainable, prosperous and internationally competitive in 2010 if reduction in tariffs is measured in accordance with the timetable recommended in Section 13.2 of this alternative analysis, “Pause in Reduction of Tariffs pending International Trade Liberalisation”.

13.2.2 Process of tariff reduction

Fundamentally, the desirability of tariff cuts in Australian TCF depends upon the international trading environment.

To cut tariffs prematurely, i.e. before our principal trading partners, is a false economy with dire consequences. Therefore, tariff reductions must only proceed on a multi-lateral basis.

I propose an examination of major trading nations’ policy in 2004 and, if international trade is moving towards liberalisation, tariffs will be reduced progressively through 2010. If there is no significant trend in liberalisation, tariffs will remain in place pending APEC obligations.
Note that the removal of quotas, the major source of distortion in world trade, imposed under the Multifibre Arrangement, are due to be lifted under the Textiles and Clothing Agreement by 1 January 2005. Progress towards this objective will provide an indication of the pace and direction of trade liberalisation.

This examination does no more than ascertain whether conditions for tariff reduction have been satisfied. It is not a policy formulating exercise, since that function is being undertaken now.

I also propose positive assistance in the form of a bounty or concession to:

a) facilitate the smooth transition of Australian TCF businesses to viable sectors and niches in the tariff pause period; and
b) replace the highly successful ICS program on a World Trade Organization (WTO)-compatible basis.

The intended purposes of the bounty or concession are set out in Section 13.3 “Funds for investment to facilitate smooth transition to viable sectors and niches” and “ICS replacement”. I am not equipped to detail the arrangements for positive financial assistance: this is a matter for government’s consideration.

### 13.3 Features of my TCF policy recommendation

#### 13.3.1 Importance of certainty

Policy should be set now to provide an element of certainty for the investment environment through 2010, when impediments to free trade will be removed under auspices of APEC.

Whilst the ultimate level of tariffs will depend upon future events outside Australia’s control, i.e. trade liberalisation by trading partners, there will be certainty for investment in TCF as:

a) The Australian TCF environment will be more conducive to investment than under the concurring Commissioners’ proposed tariff reductions through 2008, whether:
(i) trading partners remove protection from their markets and Australia responds with tariff reductions from 2005; or

(ii) trading partners retain protected markets and Australia maintains tariffs at 2000 levels pending APEC obligations;

b) The likely progress of international trade liberalisation in TCF will become more apparent in the period to 2004, giving participants an indication of likely tariff relaxation in the period 2005 to 2010; and

c) There will be no further inquiry and no adjustment to TCF policy in 2004, merely a bare examination of trading partners’ policy settings to determine whether a pre-set condition for tariff reduction has been satisfied.

Certainty is an imperative for the investment environment and, consequently, I cannot accede the request of many industry submissions to the IC for a full review of TCF policy in 2005.

13.3.2 Pause in reduction of tariffs pending international trade liberalisation

I recommend a halt to tariff reductions from June 2000 until June 2005, with by-laws and other ‘anomalies’ in the tariff system to remain in place. Tariff reduction will resume from 2005, provided that international trading partners are opening their markets at that time.

To remove protection from our market while the international trading community retains barriers to our exports will cause Australian businesses that could be viable and prosperous in a free trade environment to close or move production off-shore, because their:

a) domestic markets will be vulnerable, given low Australian tariffs; and

b) international markets will remain constrained by protectionism and the trade diversion that limits the opportunities for foreign customers for Australian primary output to sell their goods into other jurisdictions.
whereas Australian operations might be sustainable if there were fair access to overseas market.

In effect, unilateral tariff reduction imposes a higher hurdle for Australian businesses in the period between 2000 and the free trade era than will exist in the free trade era. TCF industries that could flourish in the APEC environment will be culled unnecessarily en route.

The respite from the pressure of continual adjustment to lower tariffs will afford opportunity for consolidation of productivity gains, adjustment to the reduced protection environment and the best chance of successful transition to “sustainable, prosperous and internationally competitive” operations.

13.3.3 Positive assistance

It will be necessary to provide assistance for investment and exports in the form of bounties or concessions that do not offend international obligations. The intention of this support is twofold:

**Element 1: Funds for investment to facilitate smooth transition to viable sectors & niches**

This element of the positive assistance program is intended to enable Australian TCF businesses to invest and reposition themselves in viable sectors and niches in advance of 2010. There will be considerable expense associated with transforming the character and/or quality of businesses and assistance based upon (projected) turnover or value added will be made available to facilitate the transition, through:

a) business planning and market positioning;
b) product and systems development;
c) adaptation of premises and re-tooling;
d) re-skilling; and
e) plant rationalisation.
The assistance will be available in the period 2000-2005 on the basis that the assistance will have greatest impact if:

f) available during the tariff pause, when the competitive pressures of continuous adjustment to falling protection are in abeyance;

g) delivered intensively, in a limited period; and

h) available prior to the rapid reduction in tariffs in the period 2005-2010.

To encourage businesses to effect adjustments early in the tariff pause period, the assistance could be weighted towards the early part of the period, diminishing towards the end of the period.

This program may cause an overall increase in the level of assistance provided to TCF industries over a short period 2000-2005, but it is strategically important and I support it in the context of a general trend towards reduced tariffs in the period between now and 2010. Note that the level of assistance I propose will be set at a much lower effective rate of assistance than the level of the late 1980s and early 90s and will not represent a significant regression in trade liberalisation.

Such a program would be different from previous investment assistance programs in that:

i) It relates to the transformation of the entire business, not merely acquiring specific items of plant or equipment for superior productivity, and can be applied to a wide range of activities necessary for transition to viable sectors and niches; and

j) It is tied to the turnover of or value added by the applicant. Given that funding for transformation of a business would ordinarily be drawn from free cashflow, modest assistance set around the level of, say, 3-5% of turnover, would constitute major leverage of the funds available for transition planning and implementation.
Element 2: ICS replacement

The ICS is one of the great successes in Australian trade policy and the regime of positive assistance should include a replacement for the export incentive consistent with WTO rules.

This element will be particularly important as TCF businesses will increasingly source particular elements and sub-processes for production from offshore to complement cost-competitive Australian elements and sub-processes.

Positive assistance funded from tariff revenues

Irrespective of whether the positive assistance program is described as a bounty or concession, it is necessary for the concession to be funded from or capped at the level of tariff revenue. The reasons for this are:

a) TCF industries should not place any additional burden upon the public purse at this time; and

b) self-funding affords the program a degree of protection from budgetary pressures.

13.3.4 Examination of trade liberalisation progress

In 2004, there will be an examination of international progress in removing protection from TCF industries.

a) If there is adequate progress, measured against pre-set guidelines, to ensure that Australian TCF is not unduly disadvantaged, tariffs will be progressively lowered to a target rate of 5% over the period to 2010; or

b) If measured progress is not adequate, tariffs will remain fixed pending supervening obligations under APEC.

In this regard, I note that our trading partners use many devices to protect their markets, including quotas, anti-dumping powers (which are broad and often misused), other non-tariff barriers and nominal tariff thresholds. Therefore, it is misleading and dangerous to merely compare ad valorem tariff rates between
Australia and other jurisdictions. The pre-set guidelines should address:

c) character and level of trade barriers;
d) commitments and trends in reducing or dismantling barriers, including the progress of countries in meeting Uruguay Round obligations; and
e) which countries maintain the barriers and their importance for Australian TCF, both directly (i.e. access for Australian imports) and indirectly (i.e. access for exports by trading partners incorporating Australian inputs).

China, the US and the EU will be the most significant jurisdictions in the exercise.

Fundamentally, reciprocity conditions should be based upon progress of trading partners towards trade liberalisation, particularly meeting APEC 2010/2020 targets. They may recognise that Australia takes a leading position and we do not expect others to match our pace, but we do require meaningful and reasonable progress in opening markets.

This function should be performed by a body equipped to monitor international trading conditions, most probably the Department of Foreign Affairs and Trade or its successor. It may be possible to create formulae to ensure that there is a minimum of discretion in the measurement exercise.

13.3.5 Extension of the OAP

I applaud the judgment of the concurring Commissioners to broaden the eligibility of the OAP program, but reform needs to go further by deepening the incentive. Specifically, I consider that the duty free element in the OAP should extend beyond the Australian value added element to compensate for the diminishing value of duty relief in a reducing tariff environment, as Pacific Brands contends:

Australia’s Overseas Assembly Provisions have been in operation for 4 years and have only really been used as a development tool by 3 divisions of Pacific Brands.

... with duties declining and the continuing strict requirements for Australian OAP operation, the preference incentive for OAP sourcing for Australia is declining.
... To offset this trend, and also encourage new users of OAP’s this facility needs to be broadened along the lines discussed in the Deloitte’s OAP report of August 1995. From the Pacific Brands experience the most important element needed to be included in the liberalisation of OAP operation is the full duty free status for OAP qualified goods...

This would resolve many of our current problems...and reverse the diminishing preference margin flowing from overall reduced duties. (sub. 44, p. 36)

The deepening of the incentive after 2005 may involve extending the duty concession to the value of the entire product or increasing the duty concession in line with the tariff reductions to ensure that the incentive remains meaningful.

Of course, it will be necessary to prescribe thresholds and safeguards to ensure that the OAP functions as intended, such as a minimum requirement of 50% Australian value for eligibility.

13.3.6 Other measures

Other features and matters raised in submissions to the IC which I would incorporate into TCF policy, include:

A Anti-dumping protection

WTO-compatible anti-dumping protection is desirable given the corruption of world markets and the six month lag between northern and southern hemisphere seasons. I favour a system of triggers to automatically engage consideration of sanctions under WTO rules. This will afford a degree of security, especially in the period post-2005.

I agree with the observations of the TFIA regarding the dumping situation, encapsulated in its submission to the IC:

There is mounting evidence of a strong rise in dumping of TCF merchandise into Australia following the removal of all TCF quotas three years ago. This was foreshadowed by industry as Australia abolished TCF quotas more than ten years before the rest of the world begins to dismantle its quota schemes.
An important contributing factor is the persisting over-capacity in world TCF production stemming from frustration in accessing overseas markets because of the non-transparency of certain international trade barriers, and indeed the increased protectionism evident in the European Union and the United States.

Development of truly effective and streamlined anti-dumping and countervailing procedures is vital to eradicate demonstrably unfair trading practices and ensure that it is not also used as a protectionist instrument by other countries.

...(if) imports do not reflect fair prices they seriously erode the assistance intended, and expected, under the current tariff schedule. Appropriate action to ensure Australian industry is not undermined by unfair trading practices is essential. Due to the difficulty, cost and timeframe involved in mounting dumping cases special arrangements need to be introduced specifically for TCF trade to deal with these concerns in a fair and prompt manner. World prices for TCF imports are well known, or easily derived, and it should be possible to develop threshold points, or triggers, whereby imports entered at an fob price below the threshold will require importers to demonstrate that the pricing reflects fair trade before final clearance is allowed. (sub. 66, pp. 24–25)

B Dedicated vocational education & training for TCF

Existing education and training in the TCF sphere were considered inadequate in several parties’ submissions to the IC. This will be especially important for Australian industries in the context of preparing labour for the migration from basic TCF processing to the sectors and niches of competitive advantage that will be viable post-2005.

The need was expressed comprehensively by the Victorian Government in its submission:

To develop these core skills means that institutions are needed which are: able to deliver relevant training needs for industry; link industry and academia; foster genuine industry participation in education and training; improve the value adding potential of
Australia’s natural resource base; and provide a comprehensive approach to supply chain management. Such arrangements would address weaknesses in the current training and education infrastructure, most notably:

- Skills shortages in management, professional and para professional fields.
- Lack of an integrated view about supply chain management.
- The central place of design which is integral to manufacturing production, technology development and marketing is not yet fully recognised.
- The need for greater accessibility of training at the workplace beyond traditional classroom arrangements, and promotion of clear career paths associated with training.
- Market gaps in what is available at degree level. The Council of Textile and Fashion Industries of Australia (TFIA) submission to the Industry Commission inquiry on TCF points to degrees available to the textiles industries which have not kept up with the changed needs of industry.
- Training program imbalances resulting in oversupply of programs in some areas and gaps in others.
- Many programs offered by training institutions still remain “craft” based.
- Some companies have limited awareness of how to commence training activities or have insufficient knowledge and understanding of what can be accessed from the public training system.
- Greater attention to the training needs of workers from non-English speaking backgrounds is required.
- Improved access to accredited training courses in country areas through adoption of flexible delivery methods is warranted.
- There is also a need for education in environmental issues across all sectors.
• Fragmented training effort by public sector providers is a critical issue requiring reform.
(sub. 152, pp. 8–9)

The concurring Commissioners have produced significant information, analysis and recommendations in this regard, with which I agree.

C Global intelligence

Global intelligence gathering and sharing could be undertaken or supported by government at low cost. This would confer a significant benefit on TCF industry participants spared the high cost of making independent enquiries.

The Victorian ALP described the form and function of a “TCF Global Intelligence Service” in the following terms:

…it would be the role of the TCF Global Intelligence Service to provide a service centre for the industry, which gathers global TCF and fashion intelligence. It would:

• Provide information to the industry on fashion trend, technology, styles and marketing.
• Inform firms of current government industry assistance and industry policy initiatives.
• Identify ways in which manufacturing firms and retailers can improve the quality, response time and other aspects of the firms that are part of their production chain.

To ensure that there is full support of the TCF Global Intelligence Service it should be established with representatives from each level of Government, industry and underpinned by the research capacity of an appropriate academic institution. (sub. 175, p. 11)

The concurring Commissioners have now addressed this issue in their recommendations and we are in agreement.

Certain other issues raised in submissions responding to the IC Draft Report have some merit, but do not meet my cost/benefit threshold and, therefore, I cannot include them in my recommendations for TCF policy:
D Microeconomic reform

Many submissions to the IC put a case for holding tariff reductions pending microeconomic reform, particularly in transport (especially at ports) and taxation, on the basis that Australian TCF industries are unduly disadvantaged by certain features of the commercial and regulatory landscape.

I agree that microeconomic reform is important, but it is clearly a secondary issue relative to reciprocity in tariff reform. I urge government, interest groups and the community to move quickly, but microeconomic reform should not be a further condition upon reduction of protection, because:

a) In an environment of international free trade (or demonstrated progress towards free trade), it would benefit Australia to participate by lowering its tariffs, notwithstanding that the full potential of TCF industries remained constrained by microeconomic factors, such as taxation and transportation;

b) Maintaining trade barriers on the basis of factors within Australian control would send a very undesirable signal to trading partners and may cause us to violate obligations under treaty; and

c) It is impractical to develop and implement large elements of policy simultaneously. Given the lead time to formation and implementation of policies, it is necessary to:

- develop them in parallel, as and when need arises; and
- deploy them in a logical, sequential, series, as and when ready for legislation.

Holding tariffs pending microeconomic reform could be costly and delay progress towards trade liberalisation.
E  **Retrenchment assistance**

Assistance in retrenchment in TCF industries was sought in several submissions to the IC. I appreciate the burden of redundancy payments upon business, but support is inappropriate in that it does not advance the objectives of this Inquiry and sends the wrong signal on employment to industry.

F  **Payroll and wholesale sales tax**

I consider the issues of payroll tax and wholesale sales tax to fall within my general observations in relation to microeconomic reform, i.e. they are to be urged, but should not be a precondition for tariff reduction. In any event, many TCF businesses fall below PRT threshold and many products are exempt from WST.

13.3.7 **Responsibilities upon TCF industries**

Whilst there is much that government can do to assist Australian TCF to adapt to unprotected trade under APEC, certain areas and initiatives are fundamentally the responsibility of the industry and its markets.

A  **Supply chain linkages**

Poorly developed supply chain linkages, a problem identified by the IC Draft Report and acknowledged by many in TCF, must be improved for the optimal performance of TCF industries.

B  **TQM and WBP**

Australian TCF industries have gone a long way towards improving all aspects of their performance in response to competitive markets and tariff cuts to date. It is incumbent on them to continue the effort and seize all available opportunities for improved operational, commercial and financial performance through total
quality management (TQM) and world best practice (WBP).

C Industrial relations

Employers, governments, unions and industry organisations have come together to press a largely common case before the IC. They are now obliged to cooperate in an effort to iron out all productivity-limiting elements in management and union practices, awards and other workplace arrangements.

Government can assist in each of these areas - and I urge state and federal authorities to lend every assistance - but, fundamentally, industry participants must make the running in improving the products, processes and environment of Australian TCF.
14 THE EVIDENCE AND ARGUMENTS UNDERPINNING MY TCF POLICY RECOMMENDATION

14.1 Overstated cost of TCF tariffs

It is acknowledged that tariffs (and other non-tariff barriers) have a distorting effect on economic resource allocation, impose additional costs on consumers and adversely affect real incomes and aggregate consumption. However, the most appropriate measure and the extent of the economic cost are contentious.

14.1.1 The relevance & accuracy of CTE cost to consumers

The IC Draft Report quoted a “headline” figure of $1.9 billion in respect of CTE and downstream costs to consumers for 1996-97.

I consider this an inappropriate measure of cost to the economy, since it does not take account of tariff contributions to the consolidated revenue and other transfers within the economy.

It is also a misleading measure of the welfare cost since:

a) the revenue forgone through tariff reduction will necessitate higher or additional taxation in other areas or reduced spending by government, which ultimately impact consumers directly or indirectly; and

b) it is based upon 1996-97 tariff rates, which will be substantially reduced by 2000, the relevant point for the consideration of this Inquiry. Apparently, the CTE plus cost will be $800 million to $1.4 billion by the end of the century.

There is also an argument that $1.9 billion is not an accurate measure of the actual costs, since it is based upon published tariff rates and does not take account of average effective rates
applied, which are lower due to by-laws and other tariff concessions.

ACM made the following observations regarding the economic cost of tariffs in the IC Draft Report:

ACM is puzzled by this finding for a number of reasons. First, we understand that the tax savings are based on current tariff scales and not those that will be applying in 2000. Consequently, any potential saving after 2000 will be lower. We must ask is it therefore appropriate to promote a figure which hardly reflects the reality of post-2000.

Second, the potential tax saving of $1.9 billion (or $235 per household) is almost three times higher than what is collected from tariffs on TCF imported goods of about $700 million. Based on actual tax collected, the potential saving falls to only $93 per household.

Third, as experience tends to show, it is unlikely that tariff reductions would be fully passed on to consumers as these will be shared between importers, manufacturers, wholesalers, retailers, advertisers and the government. In particular, funds will be required for new investment, market expansion and new products to ensure success in the market place.

To reach this conclusion, it must be assumed that domestic producers and retailers have not been competitive and margins have not been squeezed. In fact, net profits in recent times have fallen by about half (from $469 million in 1994/95 to $269 million in 1995/96). As even the Industry Commission acknowledges, general microeconomic conditions are important in determining profits and, by implication, the prices of goods. (sub. 235, p. 6)

14.1.2 Reduction in aggregate consumption

Given the terms of reference of this Inquiry, specifically:

“improv(ing) the overall performance of the Australian economy”

the proper measure of the cost of tariff protection is the reduction in aggregate consumption, which is estimated at:

a) $110 million at 2013-14 under the Monash model; and
b) $64 million under the Econtech model.
This cost, spread over the Australian population, represents approximately $3–6 per capita, not the CTE plus related cost figure of $253 per household cited in the IC Draft Report. On this basis, I regard the economic cost of tariffs as modest.

14.1.3 Diminishing marginal benefit of tariff reduction

It is generally acknowledged that major costs associated with tariffs occur at high tariff levels and there is a diminishing marginal benefit in progressive reductions, i.e. the benefit is not linear, relative to tariff levels.

The argument for reducing levels of border protection is traditionally based on the premise that, after a lag of some years, resources of labor and capital will be reallocated into the production of outputs which can be more efficiently made in Australia than those requiring high levels of assistance. This is referred to as an improvement in allocative efficiency. It is widely recognised in the economics literature (e.g. Johnson, 1965) that the allocative improvement resulting from, say, a cut of 5 percentage points to a modest tariff is very much less than the improvement resulting from a cut of 5 percentage points to a high tariff. By the year 2000 tariff levels for textiles, clothing and footwear will already fall into the fairly modest category (especially by international standards), so the expected improvement in allocative efficiency from further reductions will be small. (TFIA, sub. 66, pp. 39–40)

The great burden of protection, and the benefit of its removal, occurs at tariff levels that Australia has already passed:

a) throughout the 1980s, effective rates of assistance for textiles were between 50% and 100% and clothing and footwear levels were well in excess of 100%, whereas in 1996-97 they stood at 25%, 47% and 46%, respectively; and

b) welfare cost in the mid-1980s was as high as $950 million, whereas it was $130 million in 1996/97 and it is estimated at $60 million in 2000-01 (Source: Econtech submission of 29 August 1997).

After 2000, the benefit of tariff cuts will be further eroded.
14.1.4 Observations regarding the Monash model

I reiterate that I am not equipped and do not propose to argue the merit of competing economic models, but certain contentious issues and contra-intuitive observations have been identified in the assumptions underpinning the Monash model, e.g.:

a) Domestic margins are assumed to incorporate or absorb the full amount of tariff charges, which is unrealistic as competition in domestic markets (principally from major wholesalers/retailers) suppresses the prices that can be achieved. Note:

(i) The reasoning of Austrim in this regard:

All the Commission’s analysis of the effect of tariffs is based on the import price being the base price to which tariffs, taxes and other charges are added to arrive at the Australian market price. Mostly it does not work like this. The Australian market price is set by the level of competition between all suppliers. Importers work back from that price to determine the margins available. Import duties reduce the available margin. Lowering tariff rates simply increases the margin from importing and thus leaves the Australian market price unaltered. All that happens is that the volume of imports increases as existing importers supply more product, new importers enter the market and previous local manufacturers move offshore. Instead of the tariff transfer going to the Government (and thus to the community generally) the duty forgone is appropriated by overseas suppliers. Australian consumers are left no better off in terms of lower prices.

The Commission’s framework of analysis implies that there is a rigid relationship between tariff cuts and lower prices to households, exporters and users. If this relationship is as firm as the Commission contends, the massive cuts in assistance to the TCF industries and consequent surge in importing activity over recent years should have resulted in a substantial fall in TCF prices. Not so. Prices have remained virtually unchanged. For example, between 1992-93 and 1995-96, the clothing component of the CPI (weighted average of eight capital cities) fell marginally from 107.5 to 107.0. At March 1997, it was still 107.0. (ABS-6401.0). The theory seems to
depart rather drastically from reality. (sub. 183, pp. 3–4)

(ii) The Prices Surveillance Authority reported in 1993 that the full benefit of tariff cuts since 1988 had not been passed through to consumers in lower prices.

a) Long-term employment is assumed to be constant, which I find hard to believe given current jobless levels and the situation of participants in TCF industries, especially migrant women and homeworkers.

14.2 Understated cost of unilateral tariff reductions

I consider the cost of steady, unilateral reduction in tariffs to 5% by 2008, in economic terms - production, revenue, balance of payments and employment - is understated.

Further, the impact will fall disproportionately upon TCF-dependent regions and disadvantaged sections of the Australian community, causing great hardship. The cost in social and human terms will be enormous.

14.2.1 Job losses

The IC Draft Report forecasts that 5,000 to 6,000 TCF jobs will be lost in connection with its recommendation for tariff reductions (see Figure 5 of the IC paper entitled “Modelling the Effects of Tariff Reductions” dated July 1997 (“Modelling Paper”)).

It should be borne in mind that:

a) This represents deviation from a base case that assumes removal of the ICS in 2000 with no replacement or compensatory scheme;

b) The TCF employment forecast for 2014 under the Monash model of 63,000 - 73,000 in fact represents job losses of 23,000 - 33,000 on current levels; and

c) Industry estimates direct job losses of 40,000+ on current levels:
In financial terms, based on the firms responding to the ACM survey, Australia’s TCF industries will be reduced by over half with direct employment of around 40,000 jobs being lost to Australia; annual production valued at over $4.4 billion being sent offshore to return to Australia in the form of imports; and annual export earnings of $1.3 billion being lost to the nation. The viability of those expecting to remain would be seriously jeopardised if not destroyed. (Australian Chamber of Manufactures, sub. 87, p. 12)

There are over 5,500 establishments in TCF manufacturing ranging from very small firms to very large. Each will look at the Government’s decision on TCF and react to preserve the best long term interest of owners and shareholders. There are also thousands of companies supplying these industries with goods and services. With a workforce well in excess of 100,000 people it is simply not credible that job losses as a result of implementing the Commission’s recommendations would be only 5%. Austrim Textiles has surveyed its customer base (apparel manufacturers) in relation to the IC proposals. If implemented, those surveyed said they would reduce their staffing levels by between 73% and 95% by 2005. To us, these estimates are far more credible than the Commission’s estimate of a minimal reduction. (Austrim, sub. 183, p. 7)

Given current levels of unemployment and the poor performance of labour assistance plans, prospects for re-employment of those people will be poor.

14.2.2 Job creation in sectors outside TCF

There is a hypotheses set out in the Modelling Paper that certain sectors outside TCF will benefit from reduction in tariffs. Regrettably, I expect that the benefit will be slow in coming and will not generate significant jobs growth.

a) Employment will not grow significantly in industries utilising TCF inputs, e.g. hospitality, health and furniture - three examples identified by the IC.

The former two are large industries, but modest ongoing consumers of linen, carpeting and other TCF product, and unlikely to respond to lower TCF costs with significantly higher demand for labour. Hospitality (accommodation,
cafes and restaurants) and health each account for only 1.3% of total TCF goods supplied (Australian Bureau of Statistics ("ABS") 1992/93).

The latter is a larger consumer of TCF product relative to other inputs in the production process, but it is a small industry and contracting itself in response to trade liberalisation. Furniture inputs represent only 1.1% of total TCF goods supplied to the Australian market (ABS 1992/93).

b) Purportedly, reallocation of resources released from the TCF sector will materially benefit the mining sector through reduced production costs - another example identified in the Modelling Paper. I find this proposition very difficult.

Clearly, few (if any) of the factors in the production of garments by migrant women in inner urban Melbourne will find direct application in the capital intensive mining industries of Western Australia? I understand that the theory depends upon re-deployment and substitution of resources through various channels in the economy and pricing adjustments, but what are the frictional or transaction costs? What is the level of this wastage? How long will it take to transfer the resources? What are the adjustment costs?

I am not convinced that the transfer of resources released in the contraction of TCF will occur quickly or efficiently. Nor do I expect any significant stimulus to job creation.

*Intuitively, I expect that most of the resources released from domestic TCF businesses will be re-deployed in TCF outside Australia. How long will it take for international markets to make all the adjustments necessary to return resources to this country, as the general equilibrium model supposes? Can we be confident that the world functions as the model predicts?*

### 14.2.3 The importance of sentiment

One of the critical determinants of “sustainable, prosperous and internationally competitive” industry is the sentiment towards
that industry, both from within and outside. Investment and growth in TCF will depend upon a positive outlook on the part of entrepreneurs, equity and venture capital markets, shareholders (especially at institutional level), boards and bankers, usually over a period of at least several years.

The following is typical of industry sentiment expressed in submissions to the IC:

We believe there is potential for us and other manufacturers to maintain a TCF manufacturing base, albeit significantly smaller than current, in a duty free environment. However it will take time, strategic planning and encouragement to develop such activities. Without a joint effort and direction by both industry and Government our experience is that the long term planning and confidence required by individual firms will not be forthcoming and the negative aspects of the outlook will overwhelm this potential. (In the absence of the policy framework outlined below we would expect there to be minimal TCF activities undertaken locally by us or others in our markets). (Pacific Brands, sub. 44, p. 4)

Given the general response of TCF participants to the Draft Report, I believe that the IC is sending a signal that will seriously damage morale in and regard for TCF, with serious consequences for the investment in and ongoing viability of the industries affected.

14.2.4 The importance of domestic markets for the export effort

The expectation that Australian TCF exports will grow and flourish without the support of viable domestic markets, which would be denuded by unilateral tariff reduction, is unrealistic.

The common paradigm in industry is for investment to be recouped through domestic markets and export markets are serviced at a level sufficient to meet variable costs plus a modest margin, as explained by the Society for Balanced Trade in its submission responding to the IC Draft Report:

Given the extent of flux (as acknowledged by the Commission) in the global TCF markets and industries it is not correct to downplay the importance of the domestic market as a springboard for export sales. The Commission’s comment (that “A large domestic market is not essential for
manufacture of high value added niche products - mass markets are only necessary for mass producers”) goes against contemporary economic thought which contends that a domestic market critical mass is generally important for exports, particularly of a high value added or technically complex character. In the TCF Industries (as in many global consumer product industries) global brand names are increasingly turning niche markets into mass markets. High value niche products are now mass markets for niche producers. (sub. 197, p. 20)

Erosion of domestic markets will seriously undermine export effort, especially if the ICS is not replaced with some form of WTO-compatible positive assistance post-2000.

14.2.5 Hardship

The economic, social and humanitarian cost of steady, unilateral tariff reduction will fall disproportionately on particular sectors of Australian society, including:

a) Migrant women, for whom employment alternatives are extremely limited. Material put before the IC highlights the vulnerability of these people:

Less than half of the population of retrenched TCF workers find any work at all in the first two years after retrenchment, and ... ethnicity and age are key determinants of whether a retrenched worker finds any job. This is consistent with labour market research showing declining labour force participation rates for older workers and for migrants. The probabilities of older workers from non-English speaking backgrounds finding work are very poor indeed, which is significant given that they constitute the core of workers who have lost jobs in restructuring of the industries.

... The orthodox job search methods - purposeful job search combined with effective utilisation of insider information about occupational and sector-specific job opportunities - have collapsed, leaving many people to take what work they can find through personal contacts. Women’s reliance on home-based personal networks for job acquisition is well documented and generally considered to be a major contributor to their disadvantage in the labour market. This study suggests that men too are forced into reliance on local networks as their occupationally-based support and information networks
collapse with the decline in the number of TCF employers and the decline in recruitment by remaining TCF employers.

... As the TCF sector contracts then, the pool of long term unemployed workers can be expected to expand. The result of TCF retrenchment is not a smooth transition to another sector, but a long-term cost to the workers concerned and to the community at large. (“Labour Market Outcomes for Retrenched TCF Workers: The First Two Years After Retrenchment”, S Weller, Department of Geography & Environmental Studies, University of Melbourne at pages 22–23)

a) Regional Australia, where the labour force is effectively confined to an island of limited job options. Two high profile manufacturers commented upon the human toll of factory closures in small towns:

We have sought the re-employment history (both directly and via the relevant CES offices) for 3 recent plant closures. The figures noted below are the best achievable in the time available.

<table>
<thead>
<tr>
<th>Current Employment Status</th>
<th>Hole-proof Horsham</th>
<th>Bonds Taree</th>
<th>Jockey Maryborough</th>
<th>Sub Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Full Time Permanent</td>
<td>11</td>
<td>3</td>
<td>7</td>
<td>21</td>
<td>10%</td>
</tr>
<tr>
<td>2. Casual/Part-Time/Temporary</td>
<td>32</td>
<td>12</td>
<td>19</td>
<td>63</td>
<td>30%</td>
</tr>
<tr>
<td>3. Unemployed</td>
<td>51</td>
<td>45</td>
<td>31</td>
<td>127</td>
<td>60%</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
<td>60</td>
<td>57</td>
<td>211</td>
<td>100%</td>
</tr>
</tbody>
</table>

Although this is a limited sample, and we would like the opportunity to do further checks on employee responses, it indicates that a substantial proportion of the workforce involved in such closures is unable to find employment, and in particular permanent full time employment.

The period over which alternative employment was sought since plant closure was:

Holeproof Horsham: 5 months since October ‘96
Bonds Taree: 9 months since June ‘96
Jockey Maryborough: 3 months since December ‘96

(Pacific Brands, sub. 136, Attachment 1)
The YAKKA Group is proud of its employment history. The Group’s most harrowing experience has been dealing with the trauma of people who can no longer be employed. The trauma for people is worse in regional districts such as those in which the Group operates plants because alternative employment is not available. It is this aspect that makes a practical nonsense of the models used by the Commission which assume that resources lost in one sector of industry will be picked up in others. It does not happen in country towns and the dislocation to families has enormous social impacts - unfortunately all bad. (Yakka sub. 45, p. 19)

It is unconscionable that the burden of tariff reform should be allowed to impact disadvantaged groups so intensely.

14.3 General merit of measured reduction in tariffs and minimisation trauma to industry

Lower tariffs can be achieved with a minimum of trauma by a measured reduction in line with trading partners and/or APEC obligations.

14.3.1 The capacity to add value is important for Australia

I appreciate the economic arguments put for rationalising Australian industry to those sectors and niches in which it is internationally competitive, but it would be a travesty if the drive for efficiency left us with no capacity to add value to the primary output that has underpinned the economy over many years. For the sake of achieving balance and a reasonable degree of self-reliance, we cannot afford to be a one-dimensional economy.

Submissions to the IC from across business, industry bodies and governments, including some expressing broad support for the draft recommendations on tariff reduction, agree upon the importance of retaining a real manufacturing capability:

A truly competitive TCF market in Australia taking into account price, availability and range of product and product components needs a mix of imported and locally manufactured product. The balance of that mix will change over time to meet global competitive pressures and consumer demand patterns.
The Inquiry will need to assess the views of the TCF manufacturing sector in considering the survival of an appropriate local industry. (Australian Retailers Association, sub. 86, p. 10)

It is clear that the future for TCF in developed countries such as Australia lies in higher value added goods and services, including further processing of natural fibres. The bases of long term competitive advantage continues to shift towards knowledge and innovation based activities. In these activities, non-price factors such as quality, design and brand identification are all major drivers of advantage. Even relatively small inroads into markets will produce significant rewards for the Australian industry because of price premiums associated with such products. Central to this is the ability of firms to be creative and add value to all parts of the production chain from raw materials acquisition to final distribution of finished goods, and effectively integrate and manage the value chain. (Victorian Government, sub. 152, p. 5)

CML businesses would prefer that Australia has a quality local textile clothing and footwear manufacturing industry for the following reasons:

- **Quick Response program.** Apparel retailers have been rapidly adopting Quick Response systems which involves working closely, in a partnership approach, with suppliers to fulfill customer requirements. It includes sharing forecast information, and other sensitive details which has resulted in substantially reduced lead times, reduced costs, reduced investment in inventory, flexibility in design and quick responses to changing customer needs.

- **Value.** Customers seek value in their purchase of apparel and footwear. Whilst price is an important driver, the value equation includes a variety of requirements including quality. These vary according to the customer. Quality control overseas has improved considerably in recent years. However, Australian manufacturers are advantaged in that they are aware of our quality expectations, quality monitoring can take place during production, and faults can be rectified more quickly than by their overseas competitors.

- **Reduced Risk** associated with purchasing from Australian suppliers. Because of the risk profile associated with imported products, imports need to cost approximately 15% less than the Australian item.

- **Closer supplier relationships.** Our businesses have moved towards a partnership approach to meeting customer
needs and understanding and streamlining of each others’ business. Local suppliers have generally been very responsive.

Over the past few years, a number of Australian manufacturers have increased their expenditure in new technology and infrastructure such as electronic data interchange supply systems, quality machinery and warehouse/distribution. This investment will take time to generate a return and present suppliers with the opportunity to become competitive on a larger scale. (Coles Myer Limited, sub. 58, pp. 1–4)

This viewpoint is supported by the public in survey information utilised by the National Farmers Federation, a strong supporter of unilateral tariff reduction:

A recently commissioned AGB McNair survey of 1,000 people found that 88% believe lower tariffs cost jobs. Furthermore, 82% are prepared to forgo cheaper imports to protect industries and jobs. (sub. 196)

14.3.2 Pause for adjustment will foster stronger businesses post-2000 — the importance of maintaining critical mass

Critical mass, at both business and industry levels, is an essential element in the viability of Australian TCF in the free trade environment. Submissions to the IC underscore the point.

a) At the level of individual businesses, in terms of achieving economies of scale and robustness to withstand the rigours of competitive markets:

The scope for improved competitiveness now largely rests with the capacity for business to increase scope and scale of operations. Domestic market niches and export are broad growth strategies for the higher quality end of the market. To illustrate potential areas of concern with respect to tariff reform in the Tasmanian TCF industry:

• The link between cash flows which underpin viability in the short term and lead times to increase scope and scale by developing sustainable export markets (medium to long term) is fundamental to a program of adjustment.

• Suppliers of debt or equity must have confidence to make the scale of financial commitment for the period required to develop and consolidate export markets.
• Risks to cash flows perceived by financiers as a result of unilateral action on tariffs inhibits the supply of capital to develop export capability. (Tasmanian Government, sub. 234, pp. 6–7)

b) At industry level, in terms of up- and down-stream support for sourcing inputs, production and distribution:

Although not as powerful as in automotive, linkages in TCF should not be overlooked or underestimated. For example, the capital intensive spinning sector is an essential link between fibre production and the manufacture of fabrics and yarns. Upstream, a demanding domestic spinning sector helps keep Australian fibre production at the leading edge without undue reliance on international customers, whilst downstream, Australian textiles manufacturers receive the benefits of more responsive, closer relationships with domestic spinners.

... However, the ability to realise critical mass is under threat from continued tariff reductions and increased import penetration. Loss of capabilities in key parts of TCF have adverse upstream and downstream implications, and this should be recognised by policy makers in framing future assistance regimes. (Victorian Government, sub. 152, p. 10)

Through the downsize and rationalisation of the TCF industry as a result of the removal of quotas we are fast approaching a point where we are falling below a critical mass of manufacturers and suppliers. It is becoming increasingly difficult over the last several years to find component suppliers domestically as there is simply not a large enough industry for them to maintain operations in Australia. If the trend continues in terms of further manufacturing downsizing in Australia then we should understand there will reach a point where manufacturing in total will disappear as a result of no suppliers to the industry. (Sheridan Australia, sub. 51, p. 6)

The pace and process for achieving free trade in Australia will have a significant effect on the critical mass of TCF participants. In its verbal submission in response to the IC Draft Report, Pacific Brands stated that:

c) a steady, unilateral reduction in tariffs to the level of 5% from 2000 would cause a contraction of approximately two thirds in its workforce; whereas
d) a measured reduction in tariffs to the same level in 2010, but with a pause until 2005, would permit opportunity for adjustment and reduce job losses to one third.

I expect that this paradigm will be repeated throughout well-managed, long-term viable TCF businesses.

It would be tragic if we arrived in the free trade environment of APEC with industries so denuded that they have no capacity to:

e) withstand competition, head-to-head, in international TCF markets;
f) add value to primary production; or
g) support itself in up-and down-stream linkages,
h) because they were not given adequate opportunity to adjust to the free trade environment.

14.3.3 Retaining a bargaining position

Unilateral reduction of protection to negligible levels will render Australia a beggar nation in trade liberalisation negotiations. I expect that retention of tariffs will afford us both a “carrot” and “stick” for the achievement of APEC objectives, especially if we attach ourselves to a trading giant such as the USA in negotiations.

It is suggested in the concurring Commissioners’ Report that maintenance of tariffs will send a negative signal to trading partners. I do not think this is significant, nor do I expect that unilateral reduction of tariffs will induce an equivalent response in other jurisdictions.

14.3.4 The human element

Finally, I was deeply saddened by the recent closure of the Gloweave shirt factory in Melbourne, which are owned by the Same Family, and shifting of their production to Indonesia. The situation was described in the “The Age” of 17 July 1997:

The Gloweave shirt factory in Brunswick Street Fitzroy, overflows with life. Migrant women operate noisy machinery and chatter in the company canteen during tea breaks. Many
have spent their entire working lives employed by this third-generation family business.

Manufacturing shirts is a repetitive business. Each woman performs her task countless times each day: some sew seams, others attach pockets to shirtfronts or make cuffs. But their faces light up as the company chairman, Saul Same, arrives. “Hello Mr. Same, how are you today?”

Most have worked here for twenty years or more. They've become wives, mothers and grandmothers during their time at Gloweave. And no one has valued them more than their boss.

Shuffling around his busy warehouse, Same is overcome by the workers’ enterprise. “You wouldn’t see anyone working harder anywhere in the world. You couldn’t ask them to work any harder. Their only weakness is they don’t speak the language.” Soon, the factory will close, one of the last in Fitzroy. About 85 workers will be left unemployed. Same will scale back his involvement in the business and builders will move in to turn the old factory into apartments.

After years of struggling to continue manufacturing locally, Gloweave is finally following in the footsteps of its Australian competitors and moving offshore. From September, all Gloweave shirts will be produced in a specially licenced outlet in Indonesia.

... The decision has devastated Same. Truth be told, the company should have moved offshore years ago, but his attachment was too strong. “The day we announced it the girls started crying and I started crying. I couldn’t speak, I was terribly traumatised.”

... Same says the company’s equipment is going cheap to anyone who will hire a few of his workers as well. “They can pay it back over 10 years if they like” he says. But those who have approached Gloweave are reluctant to hire the staff for fear of being burdened with redundancy payments should their own business plans fail. The Sames used the money from the factory’s sale to meet their payments.

Gloweave was obviously not sustainable in Australia at current tariff levels and I do not recommend raising protection to retain the viability of such businesses, but I make two points in relation to the recently announced closure:

a) The assets released from the closure of the Sames’ business will reappear in Indonesia, rather than other sectors of the Australian economy. That resource and productivity is lost to Australia; and
b) The human cost of imbalanced economic policy will be horrendous. It is unfair that the toll of tariff reform should fall disproportionately on disadvantaged and vulnerable groups in society.

I was very moved by the appearance before the IC of a migrant woman who will be retrenched from the Gloweave business, notwithstanding abiding loyalty between the Sames and their employees. The woman, who wept before the Commission, said:

I’ve been working at Gloweave as a machinist for 23 years. Unlike my colleagues, here which they have a job, I have no longer a job. In 4 weeks time I will be made redundant. I was really devastated when they did tell me that I did not have a job. I thought that at least I would be working for another 20 years, which I feel I have that inside me. My husband works in a textile and his company have just made a third of their people redundant also. So if my husband loses his job and I have no longer a job, you can see - you know, please hear us ...

... (DR trans., p. 188)

I was and remain deeply concerned for the woman and fear for many like her if we proceed with a policy unilateral tariff cuts.
REFERENCES


—— 1993a, *Australian and New Zealand Standard Industrial Classification*, Cat. no. 1292.0, Canberra.

—— 1993b, *Manufacturing Industry Australia, 1989-90*, Cat. no. 8221.0, an previous issues, Canberra.


—— 1994, *Labour Mobility Australia*, Cat. no. 6209.0, AGPS, Canberra.


— 1997b, *Company Profits, Australia*, Cat. no. 5651.0, and previous issues, Canberra.

— 1997c, *Consumer Price Index*, Cat. no. 6401.0, and previous issues, Canberra.

— 1997d, *Import Price Index, Australia*, Cat. no. 6414.0, and previous issues, Canberra.

— 1997e, *International Trade, Australia: Magnetic Tape Service*, Cat. no. 5464.0, and previous issues, Canberra.


— 1997g, *Manufacturing Industry, Australia, 1994-95*, Cat. no. 8221.0, and previous issues, Canberra.

— 1997h, *Price Indexes of Articles Produced by Manufacturing Industry, Australia*, Cat. no. 6412.0, and previous issues, Canberra.

— 1997i, *Price Indexes of Materials Used in Manufacturing Industry, Australia*, Cat. no. 6411.0, and previous issues, Canberra.


— various years, *Australian National Account: Input–Output Tables (Commodity Tables)*, Cat. no. 5215.0, AGPS, Canberra.


ACS (Australian Customs Service) 1993, *ACN TCF Import Credit Scheme — Administrative Arrangements*, no. 93/26.


AusIndustry 1996b, *TCF Program Publicity Flyer: material for TCF supply chain partnership program*.

AusIndustry 1996c, *TCF Program Publicity Flyer: material for TCF quality improvement program*. 

418


Collins Report 1996a, Outworkers in the Garment Industry, Senate Economics References Committee (Senator J.M.A. Collins Chairperson), Senate Printing Unit, Commonwealth of Australia, Canberra.


—— 1997c, *Service Requirements for the Employment Services Request for tender*, DEETYA.

—— 1997d, *Headhunters to Chase Long-Term Unemployed Sooner*, Media Release, 11 July, DEETYA.


DPMC (Department of Prime Minister and Cabinet) 1997, *More Time for Business*, Statement by the Prime Minister, the Hon. John Howard MP, 24 March, AGPS, Canberra.


Frisch, R. 1959, ‘A complete scheme for computing all direct and cross-demand elasticities in a model with many sectors’, *Econometrica*, vol. 27, no. 1, pp. 177-96.


REFERENCES


—— 1984a, Re-import Concessions, Report no. 353, AGPS, Canberra.

—— 1984b, Bounty Assistance to Australian Industry, August, AGPS, Canberra.


REFERENCES


—— 1997c, Patterns of Textile, Clothing and Footwear Trade within APEC, 1990-94, Research Report, May, AGPS.


NICS (National Investment Council Secretariat) 1995, *Financing Growth: Policy Options to Improve the Flow of Capital to Australia’s Small and
Medium Enterprises, Department of Industry, Science and Tourism, Canberra.


NSW Farmers’ Association 1997, Is the IWS a Good Investment for Woolgrowers?, February.

O’Donnell, C. 1988, Research into the Situation of Clothing Outworkers in NSW, NSW Department of Industrial Relations, Prevention Branch, Sydney.


Office of the Premier Victoria, 1997, $30m Natural Fibre Education Plans Unveiled, January 2.


PC (Productivity Commission) 1996, Stocktake of Progress in Microeconomic Reform, AGPS, Canberra.

PECC (Pacific Economic Cooperation Council) 1995, Survey of Impediments to Trade and Investment in the APEC Region, APEC Secretariat, Singapore.


Selvanathan, S. 1988, *A System-Wide Analysis of International and Interregional Consumption Patterns*, Dissertation, University of Western Australia, Western Australia.


—— (NSW Branch) 1997, *Clothing Division Union News*, vol. 1, no. 18.


Wool Industry Taskforce 1996, *Wool Growing in Victoria, Pathways to Profitability*, Department of Natural Resources and Environment (Victoria), Melbourne.


