

RESPONSE TO PRODUCTIVITY COMMISSION REPORT ON POST 2005 TEXTILES, CLOTHING AND FOOTWEAR ASSISTANCE ARRANGEMENTS

PC Findings	Government Response
<p><u>The TCF Sector's Future Prospects</u></p> <ul style="list-style-type: none"> • Some firms and parts of the sector are performing well, exploiting competitive advantages to develop new products and to secure new markets. • Other firms are in a process of transition, with reasonable prospects of operating in a lower assistance environment in the medium to longer term. • For firms producing standardised products in the more labour intensive parts of the sector, future prospects are very limited. Many will not survive, regardless of the assistance regime. • Across the sector as a whole, future assistance levels will be but one influence on firms' prospects. Global market pressures, firms' business models and exchange rates are just some of the many other factors that will impinge on those prospects. 	<p>The Government notes the PC's analysis and in particular the finding that many firms will not survive irrespective of the assistance regime put in place.</p>
<p><u>Adjustment in the TCF sector</u></p> <ul style="list-style-type: none"> • Adjustment for workers displaced from the TCF sector, in cities as well as in regions, may be difficult: <ul style="list-style-type: none"> ○ Educational attainment is often limited and skill levels are frequently basic and sector-specific. ○ The predominance of female employees and low English language proficiency further reduce labour mobility and therefore re-employment opportunities. ○ Many small and medium sized businesses have had a history of being unable or unwilling to pay employee entitlements in 	<p>The Government acknowledges that some displaced TCF workers will experience some short to medium term dislocation. It is difficult to anticipate the extent of this dislocation, however, the solid economic outlook, low rates of unemployment and flexible labour markets support displaced workers in both metropolitan and regional areas finding employment within a reasonable period of time. For those workers adversely affected, there are a range of generic programs capable of providing a "safety net".</p> <ul style="list-style-type: none"> • Under current Government policy, people who are retrenched

<p>the event of closure.</p> <ul style="list-style-type: none"> ○ The prevalence of 'at-risk' firms increases the possibility of lumpy adjustments to an external shock. <ul style="list-style-type: none"> ● The costs of adjustment for displaced outworkers can be higher than for factory-based employees. ● Regional dependence on TCF activity has declined significantly over the past 10 years and overall growth in regional activity and employment has generally been strong. Nevertheless, dependence on TCF activity is still high in a few regions. ● The long term effects of changes in TCF activity on regions depend on the interplay of several factors, including: <ul style="list-style-type: none"> ○ the degree of dependence on TCF activity in those regions; ○ the prospects of individual TCF firms; ○ the strength of overall regional growth and employment; and ○ job opportunities available in neighbouring regions. ● If the need arises, general measures such as the Regional Partnership arrangements are available to help regions experiencing problems from adjustment in the TCF sector. 	<p>have immediate access to job search support services provided through Job Network (JN). This includes advice on job search techniques, career options, employment programs and entering a resume on the internet for automatic job matching. Initial access to other JN services is dependent upon the amount of redundancy payments received and income support status.</p> <ul style="list-style-type: none"> ● The General Employee Entitlements and Redundancy Scheme (GEERS) provides assistance to eligible workers who have lost their job when their employer becomes bankrupt or insolvent. ● The Regional Partnerships Program (RPP) provides funding to assist communities, governments and the private sector to work in partnership to foster the development of self reliant communities and regions. <p>The Government acknowledges that these schemes may not be able to respond quickly enough in cases where large scale job loss occurs in an area with few other employment opportunities for lower skilled workers. It has set aside funds that can be called upon on a case-by-case basis to supplement these schemes to undertake specific projects that facilitate access to existing programs or to set up relevant short term initiatives. Access to elements of this funding may be contingent on matching state government contributions.</p>
<p><u>Current Assistance Arrangements</u></p> <ul style="list-style-type: none"> ● The tariff pause coupled with SIP support allows time for consolidation and appears to be encouraging some additional investment and R&D in parts of the sector that should improve 	<p>Analysis noted.</p>

<p>international competitiveness.</p> <ul style="list-style-type: none"> • However, various elements of the package seem likely to limit its overall effectiveness. Moreover, tariffs and the SIP impose large costs on consumers, user industries and taxpayers. • Changes are therefore required so that future support for the sector will better contribute to the Government's objective of encouraging the TCF sector to become internationally competitive at lower levels of assistance and to provide a better balance between this objective and the interests of consumers, taxpayers and the wider community. 	
<p><u>Approach to Post 2005 Assistance</u></p> <ul style="list-style-type: none"> • While TCF activity has some distinguishing characteristics, these do not warrant indefinite preferential treatment for the sector. • A policy of tying tariffs protecting Australian TCF producers to levels in other countries would not be in Australia's interests. • Further TCF tariff reductions would reinforce incentives for productivity improvement, provide benefits to consumers and industries using TCF products, and facilitate Australia's trade policy objectives. • The legislated tariff reductions for the sector should take effect on 1 January 2005 as scheduled and further reductions should be made after 2005. Those reductions should be implemented in a measured manner over time, accompanied by transitional assistance to help facilitate the adjustment process. • The tariff target should be 5 per cent, the maximum rate that will apply to all other Australian industries from 2010. • To avoid uncertainty affecting investment and production decisions, it is important to lay down a path and 	<p>The Government agrees that, while the TCF sector faces further transition and adjustment over the next few years, there is no justification, either economically or socially, for indefinite preferential treatment for the sector. The 10 year package to be implemented post 2005 will be the last tranche of sector specific assistance to be made available to the TCF sector.</p> <p>Assistance arrangements post 2005 will provide transitional support to help the sector adjust to tariff reform, with additional support for those parts facing the largest change. The funding support is linked to the TCF sector achieving a tariff endpoint of 5%.</p> <p>Australian trade and economic interests are best served by pursuing a comprehensive liberalisation of markets through all relevant approaches. Multilateral, regional and bilateral trade policy approaches should be seen as complementary and mutually reinforcing.</p> <p>Reducing TCF tariffs to the levels generally applying will provide benefits to consumers through lower prices and increased choice and to manufacturers</p>

<p>timetable now for the sector to reach that target.</p> <ul style="list-style-type: none"> • Making provision for further review of TCF assistance would detract from the policy certainty the sector needs and diminish the pressure on firms to improve their international competitiveness. 	<p>with lower cost structures.</p> <p>It is important that the TCF sector accept that this is the final instalment to assist it to adjust to the general manufacturing tariff environment. There will be no further reviews of the TCF sector and sector specific assistance will cease after that provided under the post 2005 package. Tariff changes will be incorporated into legislation and new assistance will be contingent on the passing of these changes into law.</p>
<p><u>Post 2005 Tariff Options</u></p> <ul style="list-style-type: none"> • The capacity of apparel and certain finished textile producers to absorb a tariff reduction of 12.5 percentage points over the 2005 to 2010 period without serious disruption is questionable. The reduction in tariffs for those goods to the five per cent target should therefore take place over the longer period to 2015. • For other TCF products, including carpets and footwear, the required tariff reduction after 2005 to reach the five per cent tariff target is five percentage points or less. Making that reduction over the five-year period to 2010 is unlikely to place unreasonable adjustment pressure on those industries. • In moving to the five per cent tariff target, there would be advantages in continuing the step down approach employed in the current assistance package. Hence the Commission's preferred post 2005 tariff option is as follows: <ul style="list-style-type: none"> ○ maintain all TCF tariffs at 2005 levels until 1 January 2010; ○ on 1 January 2010, reduce tariffs on apparel and certain finished textiles to 10 per cent and tariffs on other TCF products to 5 per cent; and ○ maintain tariffs on apparel and certain finished textiles at 10 	<p>The Government agrees that the much larger reduction in tariff rates for clothing and certain textiles could cause unnecessary disruption if undertaken too quickly. It has decided to reduce tariffs in two stages. For most items, the rates will be reduced from their 2005 levels to 5% in 2010. For clothing and certain finished textiles, the rates will be reduced to 10% in 2010 and to 5% in 2015.</p> <p>The Government agrees that the stepped down process of tariff reduction over 10 years is preferable as it provides firms with adequate time to absorb the changes.</p>

<p>per cent until 1 January 2015, and then reduce them to 5 per cent.</p> <ul style="list-style-type: none"> • Legislating early for all of these tariff reductions would deliver the policy certainty that the sector requires and maintain the pressure on firms to improve their performance. It would also help to minimise any negative perceptions about this option in relation to Australia's commitment to the APEC goal of free and open trade and investment' in the region by 2010 for developed countries. • Further reductions in TCF tariffs would effectively continue the phasing out of the TCF policy by-laws and the Expanded Overseas Assembly Provisions. These arrangements should therefore be continued after 2005 without amendment. Sector-wide duty reductions would also diminish the need to consider requests for duty free entry for specific TCF goods not made in Australia. 	<p>The planned tariff changes will be legislated as soon as possible to establish the linkage with the budgetary support and to demonstrate Australia's commitment to trade liberalisation.</p> <p>Extension of the EOAP until 2010 maintains the exposure of clothing firms to global trends by encouraging them to move out of those lower value added activities less suited to Australian production.</p>
<p><u>Transitional Assistance</u></p> <ul style="list-style-type: none"> • A further period of transitional assistance is warranted after 2005 to help TCF firms which manufacture in Australia to improve their international competitiveness, as further tariff reductions are implemented. • Transitional assistance arrangements should avoid spreading funding too thinly to make a difference to firms' behaviour. • Post 2005 transitional assistance should follow the approach of the existing SIP, with some modifications to improve its effectiveness. Although further analysis and discussion with the sector will be needed before operational arrangements are finalised, the following modifications have merit: <ul style="list-style-type: none"> ○ incorporate a clearly enunciated and explicit objective; namely, to foster the 	<p>The Government will provide a package of budgetary support measures over a period of 10 years that is closely linked to the 10 year program of tariff reductions. These measures recognise that:</p> <ul style="list-style-type: none"> • clothing and certain finished textiles face a much larger tariff adjustment than other sectors • adjustment support should help firms capture new opportunities as well as help them cope with the burden of that adjustment • investment and innovation expenditure will continue to be the major drivers in making a firm internationally competitive. <p>The Government agrees that extending the current SIP scheme is an effective and efficient way of delivering further transitional assistance to the TCF sector. It believes, however, that while most of</p>

<p>development of Australian TCF manufacturing activity that can be viable and internationally competitive without special assistance;</p> <ul style="list-style-type: none"> ○ provide generalised support for purchase of state-of-the-art second hand equipment and for ancillary expenditure; ○ subsidise investment in market and brand development associated with the manufacture of TCF products in Australia; ○ discontinue specific additional assistance for value added; ○ accelerate payments to firms as far as possible; ○ eliminate provision for funding support to firms in administration or receivership; and ○ enhance transparency and certainty by writing the new arrangements in simple and understandable language. <ul style="list-style-type: none"> ● An initiative to help small TCF firms to access transitional budgetary assistance warrants further consideration, but would require careful thought about how to address significant implementation problems, while still providing cost-effective support. ● Transitional support should not be extended to early stage wool processors - although they are currently experiencing some problems, these are not primarily linked to changes in Australian TCF tariffs. ● The following funding profile would provide the benefits of a seamless transition from the current SIP, while reinforcing the signal to the sector that its special assistance treatment is coming to an end: <ul style="list-style-type: none"> ○ The new transitional support program would operate for eight years from 2005. 	<p>the modifications proposed by the PC are useful, some are either not necessary or inappropriate. In particular, the Government believes that the general extension of support to second hand state of the art equipment would distort the policy message of the program and lead to increased administrative requirements.</p> <p>The Government will extend the current SIP scheme for 10 years until 2015/16 with the first five years providing support for all eligible TCF firms. The capital intensive sectors of leather and technical textiles, which face the least adjustment pressure, will only be able to access the investment component of the new package. The second five years will provide support only for clothing firms and certain finished textiles.</p> <p>Other modifications to be made are designed to simplify delivery, remove sources of confusion and enable a clearer articulation of policy intent. For example, the Government will discontinue the specific additional assistance for value added and will increase the rebates for investment and innovation. This will contribute to a clearer focus on the main competitiveness drivers of investment and innovation. In recognition of the importance that investment in branding will play in the future, brand support will be extended.</p> <p>To assist the clothing and finished textiles sectors internationalise their sourcing arrangements and complement their product range, an Import Credit Scheme will be introduced for the clothing and finished textiles sectors only. Additionally, a competitive based grants program to encourage supply chain activity will operate from 2010/11 to 2014/15, to improve supply chain linkages in these sectors.</p> <p>The Government agrees that there is a</p>
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<ul style="list-style-type: none"> ○ Funding for the first four year period would be equivalent to total payments in the last four years of the current SIP (in nominal terms). ○ Funding for the second four year period would be halved. ○ Transitional support would then terminate in 2013. ● The transition from the current SIP to the post 2005 arrangements should be as seamless as possible. Funding claims not paid to firms by the end of the current SIP because of the five per cent sales cap should be carried over into the post 2005 scheme so that the companies concerned can be paid their entitlements in due course. 	<p>need to meet the needs of small TCF firms. Most small firms are clothing manufacturers who will receive enhanced support under the new arrangements for SIP. This includes the extension of the scheme from 2011/12 to 2015/16, support for relevant IT expenditure for the clothing and finished textiles sector only, an import credits scheme for clothing and finished textiles only and extension of the EOAP program.</p> <p>The \$200 000 threshold for eligible expenditure that exists in the current SIP scheme will continue to apply. The Government believes that this is not particularly restrictive or onerous as it can be accumulated over the life of the program.</p> <p>The Government, however, acknowledges that small TCF firms who would not ordinarily qualify for SIP may require support to assist their business development needs. To achieve this it will annually set aside funds from the overall SIP program to run a competitive grants program. Grants will be contingent on applicants meeting relevant merit criteria, including their own contribution to the project.</p>
<p><u>Labour Adjustment Support</u></p> <ul style="list-style-type: none"> ● Implementation of TCF-specific labour adjustment measures could help to reduce the likelihood of disruptive adjustment resulting from post 2005 assistance reductions, or other pressures confronting the sector. Such assistance should focus on addressing large scale, or regionally significant, job shedding in the sector through an augmentation to Job Network services. In doing so it should: <ul style="list-style-type: none"> ○ include provision for early intervention where there is prior notice of large scale, or regionally significant, 	<p>The Government will make additional provision for addressing large scale, or regionally significant, job shedding in the TCF sector by setting aside funds for appropriate assistance. These funds could be used to contract local JN members (or other qualified organisations) to provide short-term initiatives to address particular needs otherwise not catered for. For example, displaced TCF workers could benefit from skills training, career counselling or help with job search techniques. Such assistance would be additional to existing JN services and would not involve a change in eligibility criteria for access to</p>

<p>retrenchments; and</p> <ul style="list-style-type: none"> ○ use people with experience in the TCF industry. ● There is also scope to make mainstream Job Network services more accessible to all displaced TCF employees through regular dissemination of information on those services, including to outworkers. 	<p>Job Network.</p>
<p><u>Workplace Arrangements, Industrial Relations and Skilling</u></p> <ul style="list-style-type: none"> ● While workplace arrangements in many Australian TCF firms are more productive and flexible than in the past, further improvement would help some firms to compete successfully with lower- levels of assistance. ● Given the number of `at-risk' firms, the TCF sector can ill-afford the industrial disputation recently witnessed in some enterprises. ● Responsibility for achieving better workplace outcomes rests largely with managers and employees within individual enterprises. Better communication and more cooperation between the parties is crucial. ● Human resource and industrial relations skills in the sector require improvement. Among other things, this would help to promote cooperative solutions to industrial relations issues and assist managers to convey to their employees and union representatives the relationship between workplace outcomes and the viability of the enterprise and the industry. ● Workplace regulation has an important role in setting the framework for negotiations between firms and their employees and representatives. However, specific proposals put forward to constrain further the rights of employees to take industrial action raise complex issues that would have ramifications in other industries. This means that it is not 	<p>Analysis noted. In general, the issues raised here are outside the responsibility of the Commonwealth Government.</p> <p>The Government agrees that there is scope to improve productivity through greater cooperation and implementation of more productive workplace arrangements in the TCF sector.</p> <p>The existing mechanisms for wage negotiation provide a sufficient framework to allow companies and their workers to reach satisfactory agreement on working conditions and wage rates.</p> <p>An independent review of workers entitlements is not warranted. Legislation is in place to require companies to make adequate provision to meet their obligations. The GEER scheme provides support for workers affected by their employer becoming bankrupt or insolvent.</p> <p>The Commonwealth, States and the Australian National Training Authority are working together to develop a national strategy for vocational education and training for the years 2004 to 2010. A major objective of this strategy is to ensure that Australia's workforce will have the skills that industry requires to be more productive and innovative. Businesses will have access to vocational education and training products and services that are increasingly customised to meet their particular needs. The strategy will have a strong focus on</p>

<p>possible to judge their merits solely on the basis of recent experience in the TCF sector.</p> <ul style="list-style-type: none"> • The protection of employee entitlements is a legitimate concern for employees in the TCF sector given its history, and has been a trigger for costly disputes in this and other sectors. An independent review of the broader entitlements issue is warranted. • Some skill shortages and deficiencies in available training packages are evident in parts of the TCF sector. However, identifying what specific responses may be required is beyond the scope of this inquiry. Importantly, responsibility for ensuring that skill and training needs are met lies largely with the sector; educational institutions and training providers, rather than with governments. 	<p>existing workers and on helping workers affected by shifts in industry and occupational demand.</p>
<p><u>Outworkers</u></p> <ul style="list-style-type: none"> • The flexibility provided to manufacturers by the use of outworkers can assist them in responding more effectively and efficiently to the needs of their customers. For some outworkers, there are advantages from being able to combine paid employment with family and other responsibilities. • While it is difficult to ascertain the number of people periodically engaged in outwork, the full-time equivalent number of outworkers in Australia is unlikely to be much above 25 000. Nonetheless, with the decline in factory-based employment in the TCF sector over the past few years, outworker employment is now about 40 per cent of total factory-based employment in the sector and exceeds factory-based clothing employment by about 25 per cent. • Concerns about the exploitation of outworkers appear to have more to do with the levels of compliance with legislated requirements than with the 	<p>Analysis noted.</p>

<p>provisions of those requirements.</p> <ul style="list-style-type: none"> Given the nature of outwork and the supply chain involved, achieving greater compliance will inevitably require cooperation between retailers, suppliers, their contractors and unions. More regulation, or heavy handed attempts to enforce regulation, could undermine the increasing degree of cooperation now emerging under the voluntary Homeworkers Code of Practice and therefore be counterproductive. Governments, employer and community groups, industry associations and trade unions have a role to play in promoting compliance with awards and the Code, and the contribution that good employment practices more generally can make to the sector's future prospects. 	
<p><u>Other Policy Issues</u></p> <ul style="list-style-type: none"> The 3 per cent revenue duty imposed under the Tariff Concession System continues to disadvantage Australian manufacturers - including TCF firms - and imposes unnecessary costs on their customers. As currently implemented, payroll tax has significant deficiencies. However, an assessment of possible changes to address those deficiencies, or of the case for abolishing payroll tax, would need to be judged in terms of the community-wide impacts, not just the benefits for some TCF producers. The efficiency of replacement revenue raising instruments, and/or the consequences of reducing government expenditures, would be important considerations in assessing the community-wide outcome. Some progress has been made in reducing trade barriers faced by Australia's TCF exporters, but widespread barriers still remain. While Australia's tariff levels should not be tied to assistance levels in other countries, Australian Governments 	<p>The issues raised here are either outside the scope of the Commonwealth Government's responsibility or are better handled in a broader forum than here.</p> <p>The Government agrees in principle with the removal of the 3% revenue duty imposed under the Tariff Concession System and will remove it as soon as appropriate having regard to the fiscal strategy and competing priorities.</p> <p>The Government will continue to pursue reductions in market barriers for Australian businesses utilising bilateral, WTO and APEC processes.</p> <p>In the context of its response to the recommendations of the Chemicals and Plastics Action Agenda, the Government has committed to continuing to work with industry to ensure the most efficient regulatory system is in place for industrial chemicals, that is a system that does not inhibit the introduction of new and safer chemicals.</p>

must continue to pursue improved market access for TCF and other sectors in multilateral, regional and bilateral forums.

- However, the benefits for Australia from bilateral trade agreements will depend crucially on their coverage and detailed rules. Such agreements are unlikely to be a panacea for market access problems - either generally or in particular sectors - and should not reduce the emphasis given to securing better access through more broadly-based multilateral arrangements.
- There is scope for improved cooperation and information sharing between TCF suppliers and major retailers to help optimise the means of providing Australian consumers with TCF products at the lowest overall costs (including all supply chain costs).
- The application of 'proof-of-safety' requirements (NICNAS) for new industrial chemicals which have been certified as safe in other developed countries would only be warranted if the regulator can demonstrate both that a particular chemical is 'high risk' and that specific circumstances in Australia make retesting essential.