Appendix B

Background information on industries

This study uses data from an extensive survey of, and interviews with, firms in five large industry groupings[1] – Clothing and footwear, Engineering, Information technology and telecommunications, Processed foods and beverages, and Scientific and medical. These groupings provide a balance of 'old' and 'new' industries and together are representative of Australian industry. An overview of the structure and trends of each group is given below.

B.1 Clothing and footwear

The Australian clothing and footwear industry employs over 66,000 people, excluding outworkers of whom there may be as many as 300,000. There are approximately 3,500 establishments, around 2,100 in the clothing sector and 1,400 in the footwear sector. In both sectors establishments tend to be small and privately owned, with a concentration in Victoria and NSW. In 1992/93 the value of manufacturers' sales was around $3.7 billion for clothing and $600 million for footwear. In the same year the industry's exports were valued at nearly $550 million, mainly to New Zealand and the USA.

This mature industry is declining in importance in the total economy. While pockets of the industry may have strong future growth prospects, this is not true for the industry as a whole, despite high levels of government assistance. The Industry Commission estimates that effective assistance to the Clothing and footwear sector was 65 per cent in 1993/94, which is to be reduced to 34 per cent by the year 2000/01. Falling tariff levels have raised the degree of import penetration in the domestic market to 40-45 per cent for clothing and 60-65 per cent for footwear. In 1992/93 imports were valued at nearly $4 billion, mainly from China, Europe and Korea. Domestic products are not generally internationally competitive with imports due largely to the high Australian labour costs faced by this labour intensive industry.

The Federal Government has assisted adjustment through the implementation of a strategy that aims to increase efficiency and international competitiveness and identify export opportunities. The strategy is implemented by the Textile, Clothing and Footwear Development Authority and consists of both reduced tariff protection and positive adjustment measures. For example, an import credit scheme is in place which allows Australian producers to ship Australian designed textile pieces to low-wage countries to be made up and then imported back as completed articles, while only paying import duty on the cost of overseas assembly. A 40 per cent duty has also been applied to imports from the developing countries, except for China, Hong Kong and Taiwan.

[1] These industry overviews use data from BIE Research Reports (1995, 1993); DIST (1994a, 1994b); IBIS Business Information System (1995); Industry Commission (1995, 1994a, 1994b); Standard and Poor (1994, 1993a, 1993b); and Textile Clothing and Footwear Union of Australia (1995).

In response to the assistance package and the market conditions, emphasis within firms has been on improving labour productivity and increasing capacity utilisation. Some large players have improved their efficiency through significant capital investment in new technology. They have also developed brand strengths through efficient marketing strategies to retain their market share against imports and improve their export performance. Another option taken by several manufacturers is to move offshore to low wage cost countries. Other factors which have been identified as contributing to success are close liaison between retailers and suppliers; quick response techniques; a diversified product portfolio of leading branded products; a strong market position; a strong track record of responding quickly to fashion trends; entrepreneurial skills; and, vertical integration.

The segments of this industry group surveyed comprised *Men's and boy's wear manufacturing; Women's and girl's wear manufacturing; Clothing manufacturing n.e.c.;* and *Footwear manufacturing.*

B.2 Engineering

This industry group consists of establishments manufacturing a wide range of items including office, business and industrial equipment or machinery, whitegoods, gas and water fittings, and nuts and bolts. In many cases this industry supplies enabling technologies to many other sectors. In effect the engineering industry is extremely diverse and consists of relatively small and fragmented sectors. This makes it difficult to provide a general industry outlook as some segments are performing well, while others are fairing poorly.

Real growth in turnover was fairly slow across all sectors from 1986/87 to 1991/92. This reflected in part the impact of the recession. Over the same period exports grew relatively strongly, as sluggish domestic demand forced firms to look overseas for markets. A number of other factors, including tariff reductions and the general improvement in the price and technological competitiveness of Australian firms, are also likely to have contributed to this growth in exports. The fact that these firms tend to be coming off a low export base also partly explains the fast growth in exports.

Prospects for firms are dependent on the level of economic activity, activity in user industries (and the degree of gross fixed capital expenditure undertaken by them), the level of import competition and the export performance by firms in the industry. Activity in this industry has been cyclical. Some areas have benefited from the Federal Government's Heavy Engineering Adjustment and Development Plan, which was introduced in 1986 to assist technology transfer between firms.

The segments of this industry group surveyed comprised *Fabricated metal products manufacturing n.e.c., Household appliance manufacturing, Machine tool and part manufacturing,* and *Industrial machinery and equipment manufacturing n.e.c.*

B.3 Information Technology and Telecommunications

The performance of this industry is best considered in two segments – the information technology sector and the telecommunications sector – as there is little shared business between major computer and telecommunications equipment manufacturers.

In the **information technology** sector Australia's competitive advantage is in the niche product area, such as local and area wide networking, as there are no major barriers to IT imports into Australia from the United States. The industry in Australia comprises some 1600 firms, made up of a small number of large

multinationals, and a large number of domestic firms of varying sizes. The information technologies market is fast growing and was valued at $11.2 billion in 1993 and forecast to grow to $14.6 billion by 1997. Significant factors influencing the development of the industry include the ability of local firms to gain access to global distribution networks controlled by multinationals; intellectual property issues; effect of existing regulations and standards on innovation; access to standards, testing, accreditation and certification; and, access to government customers.

Most recent figures indicate the **telecommunication equipment** industry generates $2.8 billion revenue, employs 15 000 people, and generates exports worth around $500 million. The major players in Australia are seven multinationals, and one Australian-owned company. Positive growth factors for the telecommunications equipment industry include close cooperation with service providers on product development, significant local manufacturing operations, and market orientation towards government customers.

The segments of this industry group surveyed comprised *Electronic equipment manufacturing n.e.c.; Telecommunications, broadcasting/ transecting equipment manufacturing;* and *Computer and business machine manufacturing.*

B.4 Scientific and medical

This is a diverse industry with two clear segments – those firms producing medicinal and pharmaceutical goods and those producing scientific and medical equipment. Australian manufacturers tend to be small and medium in size, with over 380 establishments producing goods worth $900 million annually. More than half of the production is exported. This increased rapidly recently as international opportunities were recognised and the effects of the 'Factor f' scheme were felt by the pharmaceutical sector.

Domestic production of pharmaceutical products is mainly of branded products, although a small number of firms manufacture generic ones. The formulation and packaging of finished products makes up the bulk of the domestic pharmaceutical industry, as there is little local production of packaged ingredients. This is a result of the structure of the international industry, with Australian production dominated by subsidiaries of overseas manufacturers. The major basis of competition in the industry is product innovation which requires considerable expenditure on research and development and is heavily concentrated in the home countries of the major multinationals.

The scientific and medical equipment industry comprises a heterogeneous group of manufacturers with products ranging from hand tools to highly complex instruments. The major factors determining the performance of firms in this industry are the level of research and development conducted in-house, the level of domestic demand, the degree of import competition and the export performance of the firms. The shortage of skilled labour, the possible shortage and high cost of venture capital and failure to develop export marketing capabilities within the industry may provide some impediments to growth.

The segments of this industry surveyed comprised *Medicinal and pharmaceutical product manufacturing; Medical and surgical equipment manufacturing;* and *Professional and scientific manufacturing n.e.c.*

B.5 Processed food and beverages

The food processing industry had a turnover of $35 billion in 1991-92 and accounted for 21 per cent of total manufacturing production. The industry employed more than 160,000 people over the same period, 18 per cent of total manufacturing employment. Overall, there are more than 4,000 firms in the industry but less than 9 per cent of these have more than 100 employees.

The industry saw extensive rationalisation in the 1970s and 1980s and a concentration of ownership. Despite this, the performance of the processed food industry in export markets has been patchy. In recent years, a number of studies have been conducted by government and industry bodies to identify the opportunities and impediments and to implement appropriate reform programs. In July 1992 the government announced a $12.7m four year package of measures to boost exports of processed foods, particularly to Asia, and the establishment of the Agri-Food Council to drive the development and internationalisation of the food sector.

The survey covered four distinct segments of the Food industry which are discussed in further detail below.

B.5.1 Meat processing

The meat processing industry in Australia employs around 30,000 people and in 1993/94 exported $3.7 billion worth of product. Changes in turnover result from seasonal changes in prices, availability of livestock, and exchange rate volatility. Between 1980-81 and 1992-93 value added increased from 25 per cent of turnover to 30 per cent. However, this was due to lower input costs rather than increased processing. Individual meat markets are dominated by foreign-owned companies and in 1993/94 the top six companies were responsible for more than 60 per cent of the industry turnover.

The meat processing industry has good prospects, as the demand in Asia is forecast to increase strongly while trade barriers are being reduced. However, a recent Industry Commission report on meat processing recommended a more commercial focus and a transition from a regulatory to a quality-based system. The industry is subject to considerable regulation in areas of public health and environmental controls to meet export requirements.

B.5.2 Fruit and vegetable processing

The major fruit processing activities are the production of canned and dried fruit and fruit juices. In 1991/92 there were 101 establishments involved in this, employing over 4,000 people, with an annual combined turnover of $1.1 billion. In the same period there were 75 vegetable processing establishments involved in the production of frozen, canned, pickled and juiced vegetables. They had a combined turnover of $1.2 billion and over 7,000 employees. There is a concentration of multinationals in the market and a high degree of foreign ownership overall.

To ensure continuity of supply, processors enter contracts with local growers; indeed some of the processors are partly owned by grower cooperatives. The need to buy local inputs is a characteristic of the industry which results in higher costs than for many of their overseas competitors. High labour, packaging and transport costs also reduce competitiveness. The industry is facing growing competition from both the fresh fruit and vegetable industry and also imported processed products. Faced with falling domestic demand for processed fruit and vegetables (except fresh fruit juice), and cheaper imports as tariff protection is reduced, the industry has been declining. There is not a large export market and limited prospects of it expanding.

B.5.3 Wine manufacturing

Although there are around 800 wineries in Australia the market is highly concentrated with 75 per cent of the market being accounted for by only seven companies. Since 1988-89 domestic wine consumption has fallen fairly steadily, due mainly to higher relative prices and adverse economic conditions. Australian wine exports were worth $368 million in 1993/94, going mainly to the UK, USA, New Zealand, Canada and Sweden. The industry does have the advantage of little competition from imports – they make up only 2.5 per cent of total wine sales – although they have an estimated 30 per cent share of the market for higher-priced wines.

The industry has formed a number of key organisations to plan and coordinate their central activities including the Winemakers Federation of Australia, Grape and Wine Research and Development Corporation and the Australian Wine Export Council. In particular the Export Council has developed a five year plan incorporating production estimates, market predictions and research and development.

The Industry Commission is conducting an inquiry into the wine industry and has released a draft report (March 1995) which recommends considerable changes in three areas: taxation; industry regulation; and, promotion and R&D. The report proposes that a new regulatory body be set up at arm's length from the industry, as well as a new promotion/R&D body with strong industry ties.

B.5.4 Confectionary manufacturing

The confectionary industry employs over 6,800 people and consists of 130 establishments, generally located close to large markets. There are a relatively large number of small producers, but the top three producers are responsible for 76 per cent of sales and are all foreign owned. In 1993 Australian confectionary sales were $1.8 billion, and in the year to June 1994 exports were $170 million while imports were $125 million. The industry has faced low growth since 1990, although exports have tripled since 1989 (albeit from a very low base).

The confectionary industry is facing the prospect of slower growth in domestic sales due in large part to health concerns. However, exports are continuing to expand, especially to Asia where economic growth is stronger, sugar consumption is at a low level, and Australia is the closest large confectionary producer. Australian producers are also beginning to establish offshore production facilities. Competitive pressures within the industry seem likely to produce further rationalisation aimed at modernisation, reduced duplication and economies of scale.