COUNCIL OF TEXTILE & FASHION INDUSTRIES OF AUSTRALIA LIMITED

Submission to House of Representatives Standing Committee on Economics, Finance and Public Administration
Inquiry into the state of Australia's manufactured export and import competing base now and beyond the resources boom

Executive Summary

The TFIA and its members wish to make the following recommendations in respect to ensuring that the Australian TCF manufacturing sector continues to contribute to the Australian economy both now and following the resource commodity boom.

The Australian TCF sector faces a number of challenges including global competition, regulation, inflexible training procedures, skills shortages and poor community perception. However, the industry has a strong focus on exploiting its advantages in branding, innovation, embedding functionality, short production runs and short time to market through greater supply chain integration. The industry is proactively pursuing a promotional strategy and seeking to work with all stakeholders to build on the firm base it has in Australia.

The industry remains confident that it can grow its contribution to the economy if the right policies are put in place and thus requests the following:

- Maintenance of the Post-2005 Structural Investment Program, both its tariff levels and level of assistance. This program has put in place the necessary certainty required by companies to make long-term investment and production decisions.

- Review the impacts on TCF and broader manufacturing of the Thailand and United States Free Trade Agreements beyond just a review of trade and investment flows

- Improved market access to our existing Free Trade Agreement (FTA) partners. This requires the removal of identified non-tariff barriers in these countries and adequate measures to ensure that penalties can be applied if they are not removed. This is particularly so for the United States Agreement and its extremely prohibitive yarn and fibre forward Rules of Origin. Related to this is adoption of the principle across all FTA's that no changes will be made that impact the Australian industry;

- A clear statement that unless the NTB's identified by the TFIA and other manufacturing sectors are fully addressed in the FTA's under negotiation the Federal Government will walk away from these agreements;

- Adoption of all of the principles outlined by the Trade Remedies Task Force in respect to anti-dumping and other safeguards available to Australian manufacturers;

- Review the flexibility of existing government programs related to trade such as the EOAP and EMDG to ensure that existing TCF companies can remain globally competitive. This should include consideration of a raising of the EMDG cap to $60 million to better capture medium sized businesses;

- The separation of Trade from Foreign Affairs and its placement either as a stand alone department or with the Industry Department;

- Reduction of the company tax rate from 30% to 25% over the next five years

- Further consideration is given to the taxation treatment of depreciation on assets

- Streamlining of government regulation which duplicates, contradicts and/or hinders the effective development and growth of the industry.

- Explicit recognition in all Government Procurement activities that Australian content will be provided with a degree of recognition;

- Work with the TFIA to assist in the delivery of government information to companies' particularly small designers and businesses. This should include increased support to innovative fashion and textile designers through both the SIP and TCF Small Business program;

- Review the current system of training delivery in Australia to assess the efficiencies of having a federally developed system delivered eight different ways against a single nationally consistent system;

- Provide greater taxation incentives to companies for approved training expenses in addition to offering reduced or zero HECS fees for key manufacturing related qualifications;

- Introduce TCF as a skills area into the Technical Schools program;

- Continue reform of the industrial relations environment to produce a flexible, consistent, transparent and easy to understand system that clarifies among other things the principles of the registration of factories and the Homeworkers Code of Conduct;

- Continue to support the CSIRO as the principal national research agency for Australia and ensure that it maximises its interactions with industry;

- Provide funding support to the Australian TCF Technology Network to ensure it has national coverage. Currently this network is supported only by the Victorian Government however a national focus would make considerably more sense.

Introduction

The Council of Textile and Fashion Industries of Australia Limited (TFIA) is the peak industry association for the Australian textiles, clothing, footwear and fashion sectors. The TFIA actively lobbies on behalf of its members on a range of issues including trade, environment, government assistance and regulation. Its members comprise Australian manufacturers of textile, clothing and footwear products, dyers and printers and fashion designers and technicians.

The Australian TCF manufacturing industry remains a fundamental part of the Australian economy and in many regional areas a key provider of employment and income for local communities. The sector has been reviewed on numerous occasions with the last being undertaken by the Productivity Commission over 2002 and 2003. It is this review on which much of the underlying principles of the Post-2005 TCF Structural Investment Program (SIP) are based on.

The Australian economy has a large trade deficit and foreign debt pressures also remain high. The commodities boom is off-setting some of these pressures but without nurturing existing and potential exporting and import replacing industries now Australia will face a devaluation of the currency and lower standards of living. The TFIA welcomes the focus of this inquiry on the current state of the manufacturing sector and its role as the future driver of growth for the Australian economy.

The industry has completed an Action Agenda in 2001 and the key recommendations of that process are available from http://www.industry.gov.au

Sector Outline

Table 1 illustrates the position of the industry in 2004-05 based on the latest available data from the Australian Bureau of Statistics (ABS). TCF manufacturing accounts for over 3% of manufacturing turnover and employs more than 52,000 Australians. Investment as measured by new capital expenditure continues to grow as companies proceed forward in the rationalisation process and utilise the Post-2005 Strategic Investment Program (SIP).

Table 1 – The Australian TCF Industry

Indicator	Value $A (2004/05)	Annual Growth	Share of Australian total
Manufacturing Turnover	$7.96 billion	-15.8%	3.2%
Employment	52,600 persons	-14.5%	Na
Exports	$0.77 billion	-4.9%	Na
Imports	$7.33 billion	9%	Na
Trade Balance	-$6.56 billion	11%	Na
Investment (New CAPEX)	$269 million	35.2%	2.2%
Household Expenditure	$20.19 billion	7.5%	3.9%

Chart 1 tracks four key indicators over the last 19 years and shows the historical path of sales, imports, exports and household expenditure. It clearly shows that since the mid-90's the structure of the industry has changed as imports have increased in response to rising household expenditure. At the same time sales have begun to fall particularly since 1998/99 while exports have remained relatively flat.

Chart 1 - Expenditure, Sales, Imports and Exports

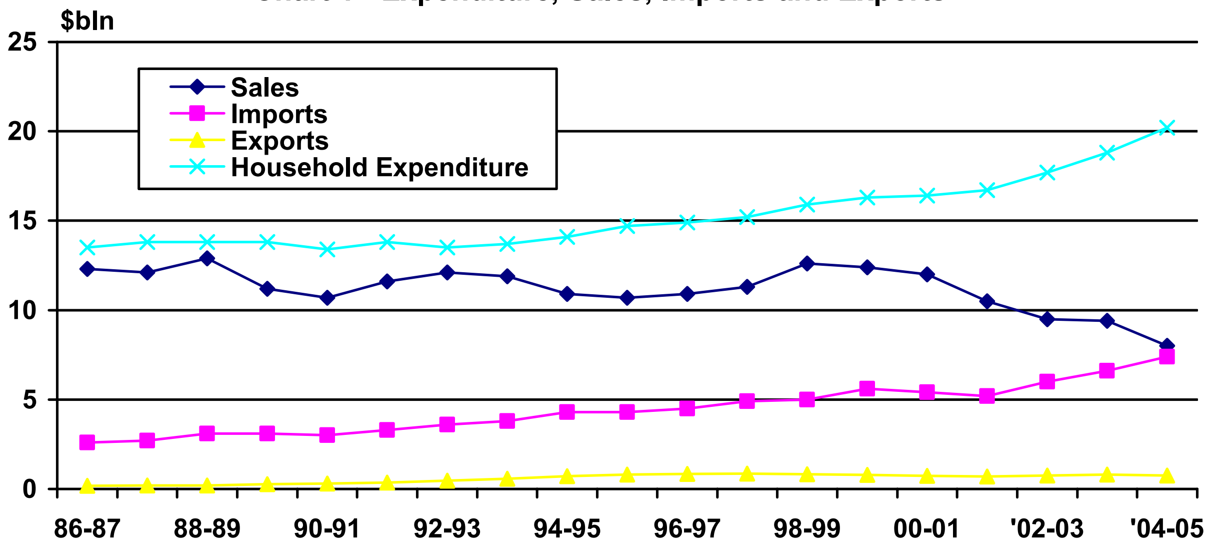


Chart 2 - Annual Growth of Key Indicators

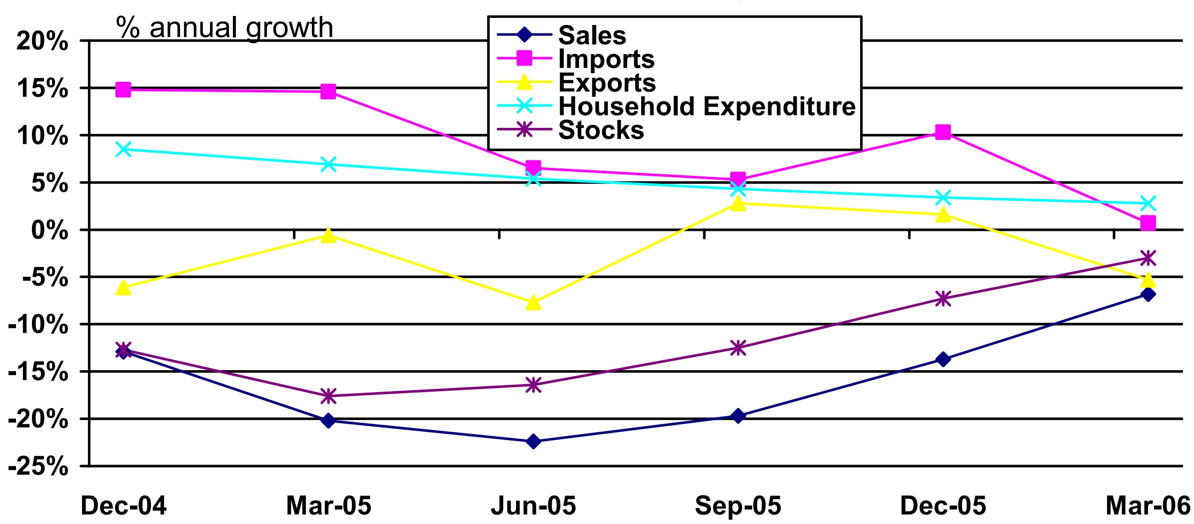


Chart 2 takes the same four indicators from chart 1 and tracks them over the last six quarters. What it shows is rising sales for the last three quarters, flattening household expenditure and overall declining growth in imports suggesting that the domestic industry is beginning a growth phase. The additional indicator shown in chart 2 is manufacturers stocks, which can be seen as leading sales growth.

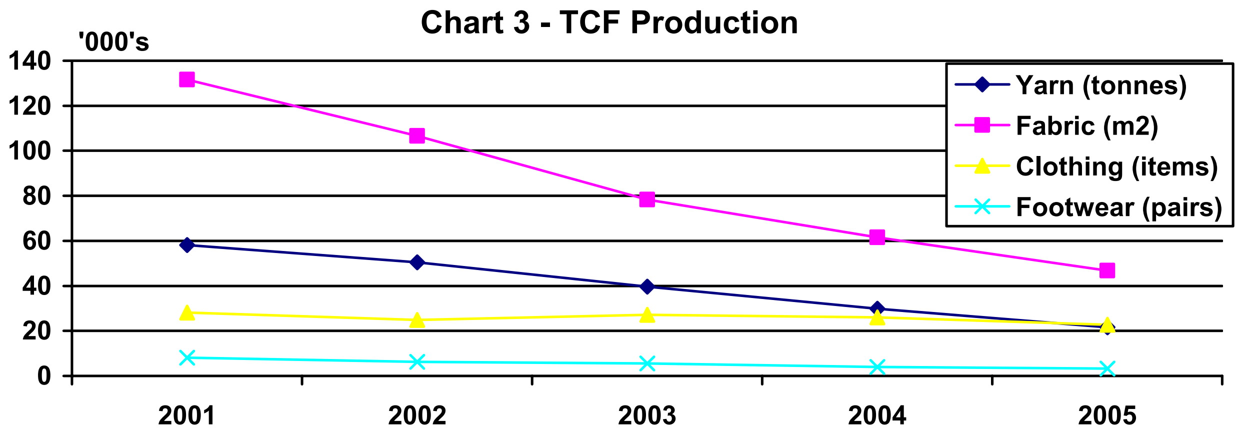


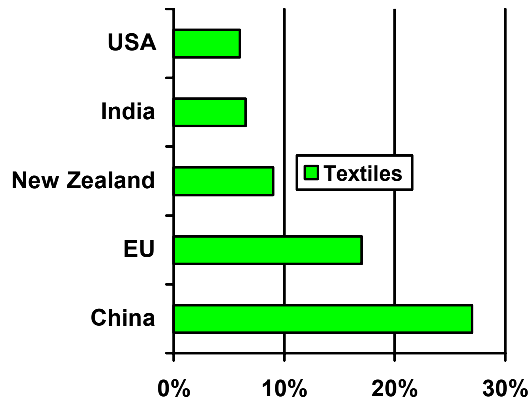
Chart 3 shows the production levels of the main types of TCF products for the last five years. While significant declines have been seen in Yarn, Fabric and footwear production, the clothing sector has recorded a significantly lower decline in production quantities. This trend in clothing is very different to the perception that many people have of the Australian clothing sector and reflects the continued strong performance of uniform and specialised clothing production makers.

The graphs above clearly paint a picture of the sector as one that has declined due to rationalisation but also one that in recent quarters has been stabilising as companies focus on niche product, exports and technology and innovation.

To conclude this statistical overview the six charts below show the top five import sources and export destinations for textiles, clothing and footwear. The graphs clearly show China dominates in respect to imports, particularly clothing and footwear and continues to outpace the next largest, the EU, by a significant margin.

In respect to exports China is only in the top five for textile exports with New Zealand being the dominant country for exports. In addition to New Zealand the United States and Hong Kong are also significant destinations. In respect to the United States this share remains largely in line with what it was before the trade agreement was entered into reflecting the lost opportunity that came from the inclusion of trade restrictive rules of origin. While New Zealand, the United States and Fiji figure in the top 5 export destinations it is interesting to note our two Asian FTA partners, Thailand and Singapore, do not rate in the top 5. Equally there are no ASEAN countries, Malaysia or UAE in the top 5 export destinations casting doubt on the effectiveness of a trade agreement to stimulate TCF trade with these countries.

Top 5 Imports by Country



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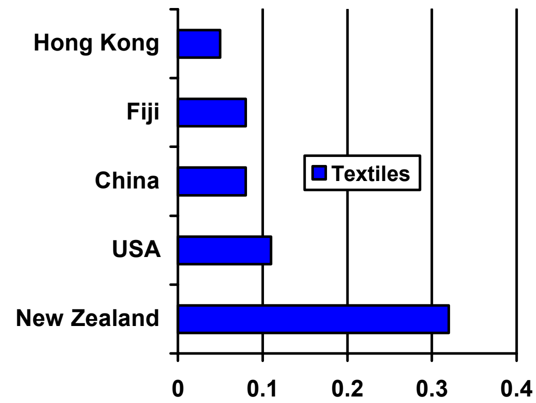

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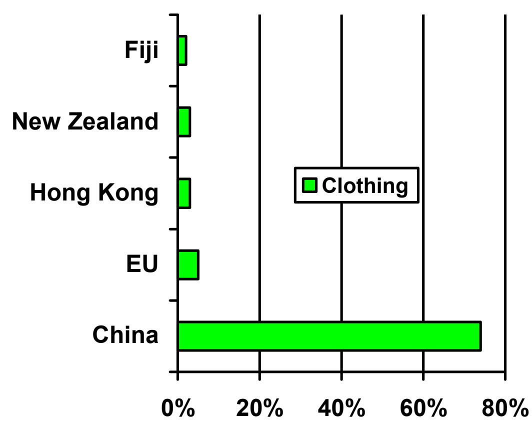

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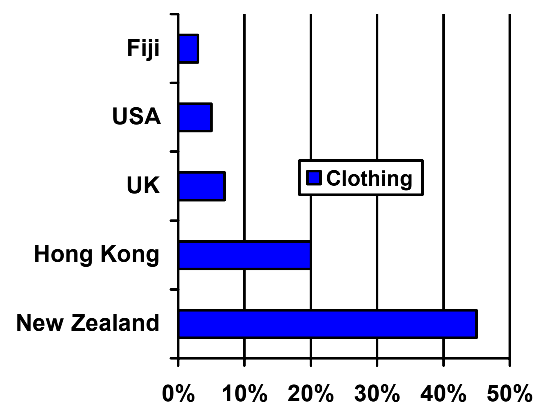

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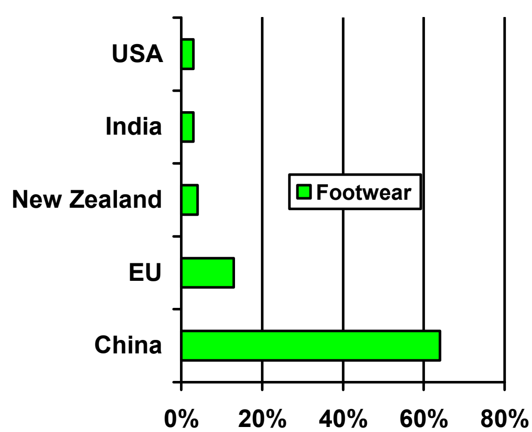

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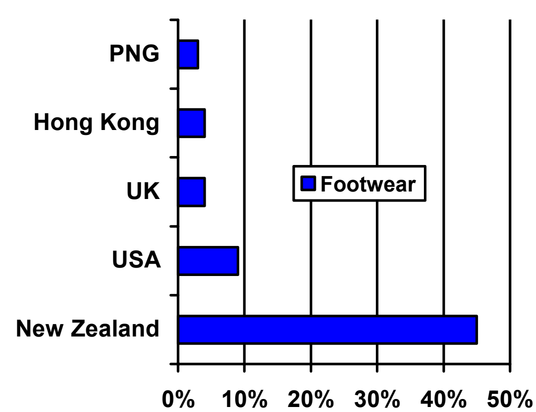

Post-2005 Structural Investment Program

In recognition of the structural adjustment required by the Australian TCF sector through the removal of tariffs the Federal Government has provided a 10-year package of assistance. This package matches stepped reductions in tariffs with a range of grants and programs designed to assist companies' transition to a high competitive global environment. Table 3 shows the agreed tariff levels for the program.

TABLE 3 – TCF Tariffs 2005-2015 (Current Government Policy)

	From 1 January		
	2005	**2010**	**2015**
Clothing & Some Finished Textiles	17.5%	10%	5%
Woven Fabrics, Carpets & Footwear	10%	5%	5%
Sleeping bags, table linen, footwear parts	7.5%	5%	5%
Textiles, yarns	5%	5%	5%

The main elements of the assistance package are:

- $500m for an extension of the TCF Strategic Investment Program (SIP) to 2010;
- $100m for extension of SIP for the clothing and finished textiles sectors to 2015;
- $50m for a 10 year structural adjustment program to assist displaced workers;
- $50m for an import credits scheme; and
- $25m specifically set aside for a 10 year grants-based program for small business.
- $20m supply chain efficiency program for clothing and finished textile firms running from 2010 to 2015

This package of tariff reductions and assistance provides the Australian TCF industry with the certainty it requires to meet the challenges outlined in this submission. The TFIA worked very closely with both the Government and Opposition to secure the passage of this package and continues to work to ensure that it continues to be implemented efficiently and effectively.

Given this certainty the TFIA argues that the Post-2005 SIP must remain in place for the duration of its life. It should not be weakened by Free Trade Agreements or other forms of legislation that run counter to it.

Challenges

There are a number of challenges facing the TCF Manufacturing and design industry in Australia and these can be broken into global competition, regulation, workforce and poor community perception. These challenges when combined make Australia a difficult place for the manufacture of TCF products but not impossible. The challenges do vary depending on the particular product and market segment that is being considered.

The majority of these challenges can be addressed by effective and coordinated activities between departments of State, Territory and Federal Governments. Each of these is covered in detail below.

Global Competition

Australia is one of the most open economies in the world with successive Federal Governments reducing the level of protection provided to the manufacturing sector. The Australian TCF sector has faced some of the greatest cuts in its assistance of any Australian manufacturing sector. While this was from a high level the pace and magnitude of the reductions have been greater than most other industries. As such this has produced significant rationalisation in the industry and reflects the resilience of many companies and the industry's preparedness to adopt change.

Australia has entered into 4 bi-lateral free trade agreements – New Zealand, Singapore, Thailand and the United States – and 2 unilateral agreements – SPARTECA and LDC's. Each of these has impacted differently upon the Australian industry with those earlier agreements providing considerable benefit to Australia as evidenced by the large share of exports to New Zealand. The range of programs including the Import Credits Scheme and SPARTECA-TCF has also increased the level of interaction between Fiji and Australia.

However, there seems to be little benefit yet from our more recent agreements. The TFIA believes that a comprehensive public review should be undertaken on the operation of both of these most recent agreements to examine their true impact on the sector. This must go beyond the simple analysis of trade and investment flows and look at the progress of NTB removal under these agreements.

Of greatest concern to Australia currently is China, particularly in the area of clothing and footwear, however India and to a lesser extent South America and Russia are also emerging global TCF powerhouses. These countries are characterised by low labour costs and a large influx of investment funding. The table below is reproduced from our 2004 submission on the Australia-China FTA and shows wage rates in China, Australia and the United States.

While there are a number of caveats on the data in the table it illustrates the advantages faced by China in manufacturing. The majority of cost difference is due to labour representing 5-10% of manufacturing costs in China compared with 30-55% in the United States and around 60% in Australia. The table also supports work undertaken in a May 2003 Market Access study which showed that out of 40 countries only Bangladesh, Pakistan and Sri Lanka faced a lower per hour operator cost in the production of textiles than China.

(All figures in USD for 2003)

	China	USA*	Australia
Cost factors – Weaving			
Hourly wage for skilled personnel	1.45	17.97**	14.98`
Hourly wage for machine tenders	0.76	15.76**	
Hourly wage for unskilled personnel	0.66	12.50**	11.51``
Cost of electric power (per kwh)	0.07	0.05^	
Cost of oil/gas (per kg. / per cu. ft)	0.37 (oil)	0.01^ (gas)	
Cost factors – Knitting			
Hourly wage for skilled personnel	1.64	16.39**	14.98`
Hourly wage for machine tenders	0.93	13.34**	
Hourly wage for unskilled personnel	0.93	11.82**	11.51``
Cost of electric power (per kwh)	0.066	0.045^	
Manufacturing costs – Weaving Textured Yarn (USD per yard of fabric)^^			
Labour	0.02 (5%)	0.22 (30%)	
Power	0.06 (16%)	0.24 (34%)	
Total manufacturing costs	0.37	0.71	
Manufacturing costs – Knitting Textured Yarn (USD per yard of fabric)^^			
Labour	0.003 (10%)	0.045 (55%)	
Power	0.01 (28%)	0.007 (8%)	
Total manufacturing costs	0.04	0.08	

*conditions in south-eastern United States
**includes 25% fringe benefits
^rate for industrial user in Greenville County, South Carolina
^^Figure in parentheses is percentage of total costs
`Hourly rate for skill level 5 worker under the award plus 30% on costs
``Hourly rate for a trainee under the award plus 30% on costs
Source – International Textile Manufacturers Federation, *'International Production Cost Comparison 2003'*

It is this issue of low labour costs that has the most significant impact on Australian producers in both the domestic and overseas markets although it is felt to a greater extent in the former.

In addition, Australian companies are also at a disadvantage through the lack of socially desirable 'policy costs' on Chinese manufacturers. While Australian companies must incorporate in their pricing the costs of socially desirable policies such as OH&S and environmental protection, Chinese producers do not have these same obligations imposed on them. While it may be sufficient to point to the Chinese Government's policy intentions it is widely known that in practice it is a very different story. The additional negative for many TFIA members is that the Chinese labour force and environment continue to suffer through the lack of effective implementation of these types of policies.

Compounding the low labour and regulatory costs, producers and designers selling into international markets are also hindered by non-tariff barriers existing with our trading partners. The list below is a range of barriers previously identified by the TFIA.

- **Pricing** – levels and lack of transparency in calculation;

- **Fixed Exchange rate** – the fixed exchange rate allows China to artificially maintain its prices at low levels and provides an unfair advantage to Chinese producers.
- **Intellectual Property** – lack of protection of concepts, ideas and products. This is particularly true in China;
- **Bureaucracy** – the myriad of officials, agencies and rules required to gain access to markets. Many of these occur at the Provincial or local level;
- **Seller Concentration** – the high number of sellers (largely domestic) in product markets requires substantial branding, marketing and promotional activities along with potential price wars;
- **Transport and distribution –** foreign companies are very often required to open commercial offices in countries in order to access or establish distribution networks;
- **Licensing arrangements** –many companies find it difficult to obtain the necessary licences to sell goods in countries;
- **Capital** – lack of available capital to access markets, particularly China which does not allow second hand machinery to be used in China thus increasing the cost for companies seeking to establish operations either individually or through joint ventures;
- **Poor payment from export debtors** – to Australian producers of exports either through not paying or paying well past due for orders;
- **Low labour and input costs** – many competitors enjoy not only low labour costs but access to subsidised production inputs;
- **Customs procedures** – difficult, time-consuming and non-transparent
- **Internal taxes and charges** – applied in a discriminatory manner
- **Standards** – expensive, time-consuming and discriminatory technical/quality testing procedures for imported goods compared with domestic products
- **Labelling** – specific labelling for foreign market requires a long series of information requests

The TFIA has consistently argued for a level playing field as a key outcome of Australia's FTA negotiations. Unfortunately this has not been achieved in Australia's two most recently concluded agreements with Thailand and the United States both of which contain NTB's that restrict Australian product entering these countries.

In the case of Thailand a range of NTB's were identified by the TFIA and many still remain in the implementation stage. While failing to address all of these the Australian Government agreed to a range of concessions including most significantly, the ability for Thailand to include developing country – outside of the FTA partners – inputs of up to 25% of the value of the product in preferential qualifying goods. This condition was never agreed to by the industry and would seem to be put in place for political reasons.

In respect to the United States agreement Australia was unable to remove the Yarn Forward and Fibre Forward RoO which in simple terms state:

- Fibre forward
    - cotton and man-made fibre spun or extruded yarns and knitted fabrics must be produced from fibres or filaments grown or formed in one or other of the parties;
- Yarn forward
    - fabrics produced for export be made up of yarns wholly formed in one or other of the Parties to the Agreement; and

- Apparel for export be produced from fabrics entirely formed in one or other of the Parties using yarns wholly formed in one or other of the Parties. The apparel must also be cut or knit to shape or otherwise assembled in one or other of the Parties.[1]

These rules act to prohibit the majority of Australian TCF products to the United States as Australia does not produce many of the raw yarns or fibres even in the case of wool where most is sent off-shore in greasy state. Analysis undertaken by the TFIA at the time of the agreement showed that only 11 items were eligible for preferential entry into the United States under these rules.

Compounding the US FTA problem is the retention of the Berry Amendment – which has limited many companies involved in the manufacture and distribution of defence related clothing and equipment – and the slow opening up of Government procurement markets. These two issues make it considerably difficult for Australian companies to sell product into the United States at competitive rates and severely limit the benefit of this agreement to Australian TCF manufacturers.

We have noted the NTB's above in consultations on Australia's current negotiations and hope that they will be comprehensively addressed. In regards to China there are many companies who see a considerable amount of potential for their products, particularly as the Chinese consumer grows wealthier and seeks non-Chinese product. However, most TFIA members were extremely positive in respect to the potential for the agreement with the United States and have been severely let down.

In light of these comments and to ensure that TCF manufacturing remains in Australia the TFIA would request that unless all NTB's noted are addressed in these agreements by our negotiating partners the Federal Government should walk away from the negotiating table. Further to this we would request a change in government policy to include discussion on the Chinese exchange rate in the negotiations or at the very least penalise Chinese imports by the difference between costs at a fixed rate and floating rate.

In respect to export promotion and trade assistance programs of most interest to the TFIA and its members are the Expanded Overseas Assembly Program (EOAP) and the Export Market Development Grants Scheme (EMDG). Both these programs are strongly supported by the TFIA and its members but we believe that additional review is required to ensure that they provide sufficient flexibility for TCF companies to remain globally competitive.

This could include reviewing their impact against company structures created from mergers and acquisitions and against the average size of a medium sized company in Australia. In the case of the EDMG we would repeat our recommendation to the review of that program that the cap be raised to $60 million.

TFIA members have over the last five years expressed concern with the conduct of negotiators in both changes to existing agreements and those in negotiation. To a large extent there is a perception that in negotiations very often 'foreign affairs' issues over-ride 'trade' issues. In many cases decisions seem to have been reached which penalise the Australian manufacturing industry – Thailand and the United States have been noted above – yet have little basis in trade policy and perhaps more to do with diplomacy.

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[1] Taken from Chapter 4 of the 'Australia-United States Free Trade Agreement Guide to the Agreement' prepared by the Department of Foreign Affairs and Trade and published on their website.

As such the TFIA believes that a policy change is required to separate the trade policy and negotiation role from that of Foreign Affairs, either by forming a new stand alone department or incorporating Trade into the Industry, Tourism and Resources portfolio.

Regulation

Australian TCF manufacturers face a range of regulations that they must adhere to at the local, State and Territory and Federal level, which increase the cost of operating in Australia. The following is a brief list of the regulations which impose additional cost burdens on textile and clothing manufacturers and designers.

- **Environmental** – State Environment Protection Agency licences and requirements; penalties for excess water use and/or additional costs to meet water usage and quality standards;
- **NICNAS** – The National Industrial Chemical Notification and Assessment Scheme can act to restrict the approval for use in Australia of particular dyes, colours and finishes necessary for new product development and design
- **Taxation** – Payroll tax; land tax; Fire Services Levies and other charges
- **Industrial Relations** – Award administrative requirements; Workcover; increased costs due to inflexibility in wage system; industrial disputes
- **Standards**

Whilst the TFIA supports the principles behind these regulations the implementation of them leaves much to be desired. Either individually or combined these contribute to the difficulty of operating a manufacturing and/or design business in Australia compared with overseas. Admittedly the latter is often cheaper because these principles are not enshrined in legislation or policed. Ironically this fact is a reason why many manufacturers and designers wish to remain operating in Australia.

The TFIA has received consistent complaints from companies on the cost impact of complying with legislation imposed at all levels of government in Australia. This compliance represents a cost for companies that cannot be reduced through efficiency improvements or other productivity improvements. While estimates vary TFIA members have suggested that simply complying with legislation and regulation accounts for between 3% to 8% of their costs depending on their size and product mix.

The simplest solution is for a streamlining of much of the legislation and removal or replacement of legislation which duplicates or worse contradicts other legislation. It has been noted to the TFIA on many occasions that on the one hand governments, particularly State, wish companies to grow and/or export yet at the same time enact legislation that severely hampers the ability of companies to do this. For instance, while providing funding for trade missions and visits many governments effectively recoup these 'cost savings' through excessive environmental, tax, accreditation and licensing costs.

A further example of this is government procurement policies. The TFIA is aware of only one state, New South Wales, which deliberately rewards tenderers who submit a fully or majority Australian content product. While assistance to companies is one way to stimulate an industry it is not as effective as demand driven stimulation. Procurement officers across Government Departments are driven by the price of the product rather than fully considering the range of other factors impacting the overall procurement decision.

A further element of government procurement relates to the setting of tender specifications. In several instances companies have noted that tenders have been developed in house by non-experts or with the existing supplier. The outcome of the latter is that the tender may not be fully up to date and in some cases the company who has spent a considerable amount of time developing the product finds the specification distributed throughout Australian and often internationally thus spreading their IP across the globe.

Taxation continues to be a large impediment in the operation of TCF companies in Australia. According to the AiG Manufacturing Futures report released in 2006 the CD Howe Institute measured the levels of corporate taxation and marginal effective tax rate (METR) (shows the tax that accrues on an incremental dollar of income from investment). The results showed that Australia with a corporate tax rate of 30% and an METR 29.4% was ranked 23rd of 36 countries measured. Many TFIA members have noted that this rate significantly deters companies from investing in capital equipment and thus expanding their operations. The TFIA would support the calls of the AiG that the company tax rate be reduced from 30% to 25% over the next five years.

A potential tax policy that the Government has available to assist manufacturing is that relating to the treatment of plant and equipment depreciation. Whilst the most recent Federal budget has addressed this issue, further work should be undertaken to see if this policy could be expanded, particularly in respect to environmentally positive assets.

In addition the Government must in the course of establishing its offering for inward investment, assess what other countries are offering companies to invest. This review needs to look at the taxation, distribution and workforce related benefits offered by many countries to foreign firms establishing operations in those countries. It is not sufficient for Australia to note that the investment incentives are the best they have been in the last few decades, the true comparison must be with what our trading competitors are offering.

Workforce and industry perception

The workforce presents several challenges for the TCF industry. While for a large part it is the cost of labour that is significant it is the additional issues around employees that compound actual labour costs for companies. These include training, skills shortages and industrial relations. The key factor across all of these is the need for improved flexibility.

Australian Qualifications Framework (AQF) Training in Australia while developed at the national level is delivered by state authorised Registered Training Organisations (RTO) which can be private or public such as TAFES and Universities. These organisations must operate in a strict set of rules and receive funding based on an allocation from each State Government. The system is far from effective with RTO's able to delay the implementation of training qualifications to the detriment of the broader industry.

As the industry advances it requires rapid change in the nature of its production equipment and processes and flexibility in the training available to it. It does not need a process that is full of delays and inefficiencies nor does it need the current situation where different states impose different obligations on trained workers. This provides a severe restriction on the flexibility and mobility of the workforce.

This would be best dealt with through a review of the current training delivery system in Australia to assess the efficiencies of having a federally developed system delivered eight different ways against a single system implemented in a nationally consistent way.

Related to training and education is the current age of the workforce and its skill set. In its 2003 review of the industry the Productivity Commission noted the problem of low labour mobility and skills shortages. According to the ABS in 2003 72% of TCF workers were aged over 35 years old compared with 62% for manufacturing as a whole. In respect to knitting mills this figure was 80% and for clothing manufacturing 70%.

As a result the industry has an emerging skills gap coupled with declining apprenticeships, negative perceptions, low critical mass and a failure of RTO's to meet changing industry needs all factor into the current status of the TCF sector.

TFIA members have proposed several solutions to this skills shortage issue as follows:

- Multi-skilling of workers to allow them to take on a variety of tasks within the one company. Such a workforce improves the flexibility of companies to meet changing customer demands without the need to employ large numbers of casual or part-time staff while also providing additional skills and career advancement for employees. Multi-skilling also allows existing workers to continue their career path development, although further benefits could occur through a review of the taxation treatment of further learning for established workers;
- Treatment of training expenses for taxation purposes in a similar way for R&D expenses (ie 125% tax deduction of approved training expenditure). This would reduce the regulatory costs for companies related to existing training methods and also only reward those companies legitimately investing in its workforce skills;
- Concessional or zero HECS fees for approved tertiary studies that relate directly to manufacturing. Such a move would reduce the discrepancy currently inherent in the tertiary environment where students feel obligated to pursue 'service' orientated degrees – law, economics, IT for instance – as the only means of securing a job. Coupled with greater promotion of the positives of manufacturing this will encourage students to consider manufacturing as a relevant career;
- Improved interaction between companies, the local community and school groups to ensure that secondary school students have an accurate picture of the Australian TCF manufacturing industry.

A clear example of the success of this type of activity is illustrated by the work of the Carpet Institute of Australia Limited who in partnership with the TFIA's RTO undertook a project to increase the number of apprentices entering the Victorian floor covering market. The project has been hailed a success in increasing apprenticeship numbers in floor covering and there has even been discussion of it being taken nationally.

Companies also have a considerable amount of concern on the level of practical business knowledge being taught in Australia's fashion, design and textile technology courses. A common issue for many designers when first starting out by themselves or within companies is the lack of training provided in their courses on business development and planning. This is compounded by the lack of clear information on these issues. This leads to many designers failing in their first business or being 'caught' by unscrupulous manufacturers and agents.

Equally, many manufacturers have expressed concern that these courses whilst producing strong design skills are not providing the basic skills required to operate in the TCF supply chain skill sets such as textile technology and pattern making are underutilised thus requiring companies to often provide additional training to newly recruited staff.

While the Government has developed 25 Technical Schools throughout Australia, the TCF sector was omitted from these in favour of Metal and Engineering, Automotive, Building and Construction, Electro-Technology and Commercial Cookery. This outcome was particularly disappointing for the TFIA and its members and needs to be revised in light of the skills shortages emerging in the TCF sector and the criteria for the establishment of these schools.

A flexible workforce is a key factor for the success of the Australian manufacturing sector and while governments have gone some way to reducing the inflexibility inherent in the TCF workforce more work is required. Inflexible EBA's, confusion on award obligations and entitlements, and often a focus on redundancy rather than growth and development by Trade Unions place considerable limitations on the progress of the Australian TCF industry.

These conditions not only restrict workforce flexibility but can cause impediment to companies looking to undertake mergers for growth and flexibility. One member has noted the redundancy provision inherent in many EBA's produce a liability that is a large negative in the consideration of a merger or take-over of a company. In most case mergers are occurring because one company is growing and seeking to expand its product range, processes or markets and this in the medium to long-term will produce employment growth.

Several TFIA members have suggested that consideration be given to establishing a scheme similar to the existing General Employee Entitlements and Redundancy Scheme (GEERS) where the Government is able to assist with any resultant redundancy costs in genuine cases where it can be clearly shown that an existing employee is unable to be retrained to meet the future needs of companies. This would address the issues of redundancy burdens restricting the flexibility of companies while also ensuring that workers receive full entitlements at the end of their employment.

Finally, the issues around home-based workers have caused significant frustration and concern for several companies in the industry particularly small designers. While the TFIA and its members do not in any way object to the principle of the code – namely that home based workers must not be exploited – there is some concern that the purpose of the code is being lost in the negative – as perceived by many companies due to a stick approach – way the code is marketed. As such the current means generates suspicion and contempt from many in industry and does not allow both the industry and home workers the benefits this type of workforce can provide. In some cases companies have cited the concern as another reason to move production offshore and thus robbing Australia of further design and manufacturing capacity.

There is no doubt that Home-based workers need to be protected and the TFIA as an original signatory to the code is working proactively with the TCFUA, NGO's and other industry groups to make this code fair and reasonable for all companies involved. However greater assistance by

State and Federal Governments to promote the code – given that it is included in legislation – would be a significant advantage to the sector and the Homeworkers Code more generally.

As a result of the challenges noted the Australian TCF manufacturing sector suffers a significant negative perception within the community. The majority of media generated on the industry can be broken into two categories. The first is fashion related which focuses on the cat-walk, red carpets and the glamorous side of the industry. While the TFIA fully supports and welcomes the success of Australian designers this focus does little to highlight the many roles behind the scenes responsible for taking the clothes from the design board to the person.

The second category generally relates to media stories focused on company closures, worker injuries or exploitation of workers. Very rarely in mainstream media are positive stories related to the industry ever seen. This has the effect of painting the industry and for many young people confirming in their minds that it is a dead industry and not capable of providing a career path.

Thus the industry finds itself faced with a problem where students wish to become fashion designers or stay clear of an industry perceived to be made up of sweat-shops, plant closures and in-humane working conditions. This perception is driven by the media but also by the many NGO's, Trade Unions and other organisations that criticise companies and industry for not doing anything, yet rarely cooperate when the opportunity presents itself.

The industry is however taking pro-active steps towards changing this perception with the TFIA leading a range of activities aimed to get some positive stories into the media. This has focussed on the role of technology in the industry and clear explanation of the career paths available for students.

The future and opportunities

While the preceding section presented a wide range of challenges the TFIA and its members view these as opportunities for expansion and growth.

The Australian TCF industry has gone through a considerable period of rationalisation and this has left companies who are focused on innovation, research and development, customer service and delivering to the markets needs. As noted by the TCFL Forum "…the new market opportunities for the TCFL industry are more about reinventing 'old' products, new approaches to 'old' markets and new competitive paradigms for 'old' business than they are about entirely new products or new markets"

Emerging product areas include light process raw materials; wool based products; specialist non-woven fabrics for medical and sanitary applications; industrial textiles, automotive supply; clothing where brand or culture is critical; quick response fashion; complex high fashion, low garment production; niche fabric, footwear and clothing production such as defence apparel, fire retardant clothing and industrial footwear; corporate apparel.

Companies are employing a variety of means to gain competitive advantage including:

- **Branding** – companies are developing and growing their brands to separate themselves from competitors in domestic and international markets. Companies such as CTE, Yakka, Rip Curl and Pacific Brands have all built up their names into recognisable labels. These brands are focused on providing quality and bring a sense of well-being to consumers.

- **Functionality** – companies are embedding functionality into their products to meet the needs of their consumers. This functionality may be stain or water resistance, fire or biological protection, environmental protection and filtration or through their design in the placement of pockets, zips and sizing. By delivering the functionality required by their customers companies are able to exploit niche markets
- **Innovation** – TFIA members remain in business because they have a distinct focus on innovation and constantly re-assessing their market opportunities. The industry has a CAPEX spend of around $280 million per annum and much more is invested directly by companies in research and development. Australia has some of the most advanced textile research groups and laboratories in the world and companies are using these to their maximum advantage. The TFIA itself has government funding for a technology network which has received a strong response and is currently managing 35 researcher and company collaborations.
- **Short-supply runs and time to market** – as China expands its markets and customer base, order quantities continue to grow thus pushing up minimum production runs in some cases and increasingly to levels beyond what many retailers can reasonably sell. Australian companies are trading on their ability to produce high quality garments in short supply runs to meet customer needs and requirements. This applies equally to clothing and industrial textiles. Compounding this is the shorter time to market and closeness to customers meaning that problems can be dealt with quickly along with allowing a greater level of interaction between the company and its customers.
- **Greater supply chain integration** – as competitive pressures grow and customers expect a higher level of product and follow-up service the Australian TCF industry is focusing on its supply chain to provide additional benefits. A designer working closely with their maker and their textile and accessory providers can ensure that what is promised by the customer can be delivered in time and to the specifications.

A recent example of these last two points is the supply chain cluster established to advance Australian produced Fire Fighter Personal Protective Equipment (PPE). Operating under the name Combined Australian Protective Equipment Suppliers or CAPES it comprises nine companies all of whom produce an element of Fire Fighter PPE. As such it includes fabric manufactures, clothing manufacturers, boot manufacturers and helmet and glove manufacturers.

These companies operate across Australia and in regional or outer metropolitan locations, employ some 1,500 Australians directly and make a significant indirect contribution to the community.

Whilst being fierce competitors outside of CAPES the nine companies have agreed to work as a group to promote their capabilities to Australian government purchasers of Fire Fighting PPE. Future activities include promoting this clothing off-shore and lobbying for recognition of Australian content in Fire agency procurement practices.

The industry's focus is clearly in becoming a highly specialised producer of TCF products, exploiting niche market opportunities and using its ability to embed functionality, new technology and innovation into its products. Critical to this focus is the need to work along the supply chain, including with designers who are able to incorporate existing and emerging textiles and clothing products into completely new and exciting products.

Another critical factor for the industry is the increased adoption and awareness by TCF companies of new technologies to create new Textile and clothing products. Recognising that much of the industry was not connecting with researchers and other technology providers the TFIA proposed the creation of a TCF Technology Network for Australia and has received strong support from the Victorian State Government. Such networks operate in other countries and provide a valuable resource for the successful uptake of technology by an industry.

The Australian TCF Technology has as its key objective the creation of an environment that enhances the ability for TCF companies to participate in the development of future technologies that may lead to the commercialisation of products into the global TCF network. It achieves this by:

- Creating a network that has both an intermediary/brokerage aspect and a general information aspect;
- Facilitating linkages between companies, researchers and financiers in both TCF and non-TCF sectors;
- Providing a showcase for Australian TCF R&D activities both in Australia and overseas; and
- Creating an environment that allows for effective technology transfer and innovation in the TCF sector that nurtures the adoption of future ideas.

In its first year the network has commenced 35 projects between companies and researchers including with overseas groups and has attracted leading international and domestic experts in TCF and non-TCF technologies to speak with the industry. While the network has a national and international focus only the Victorian Government has supported the network. The TFIA believes given the strong linkages of the outcomes from the network and the Post-2005 Strategic Investment Program the Federal Government should be a major supporter of this network.

To this end the TFIA recommends that the Australian TCF Technology Network receives support from the Federal Government for its activities.

Of all the current countries trading with Australia China is both a considerable threat but also a significant opportunity for Australian TCF companies. The growing middle and upper class in China are beginning to demand high quality brand name goods and Australian companies remain well placed to provide these products given our relatively short supply routes and perceived place of Australian products in the Chinese market. However, this access depends not so much on the tariffs in China but on the removal of the NTB's identified above.

In addition to China Australia's relationship with Fiji and Thailand offer supply chain opportunities to Australian companies. A significant amount of trade already flows between Australia and Fiji due to the SPARTECA-TCF scheme and provided there is no harm to Australian manufacturers Fiji presents a lower cost option to Australia for the manufacture of clothing. Unfortunately a lack of sufficient quality and efficiencies limits the effectiveness of Fiji currently in the Australian supply chain.

Thailand also represents a potential source through which to build supply chain links, again combining Australian design, quality and process knowledge with the benefits of lower labour costs, compared with Australia at least, to produce globally competitive products. Many companies also look at the potential for supply chain links and programs to be instigated as part of the Australia-China FTA in order to maintain industry both here and in China. A large number of companies already produce in China either through joint ventures or in wholly owned factories and thus the potential for these linkages does exist. However, it should be noted that in respect to the last point much of this is dependent on the level of market access achieved in the trade negotiations.

What is required?

The review asks for an outline of what the industry requires to be a contributor to the Australian economy during and after the commodity resource boom and the TFIA would note the following based on the discussion above. In doing so the TFIA acknowledges that it and its members also have a role to play in addressing several of these issues above and as noted above has in some cases begun this process.

The TFIA requests the following policy considerations be undertaken:

- Maintenance of the Post-2005 Structural Investment Program both its tariff levels and level of assistance. This program has put in place the necessary certainty required by companies to make long-term investment and production decisions.

  Companies are utilising the program to expand their operations and strengthen their branding and promotional activities in addition to investing in considerable R&D. The small business package is equally being used by companies to change the Enterprise Culture and in many cases the direction of their businesses to capitalise on niche growth areas.

- Review the impacts on TCF and broader manufacturing of the Thailand and United States Free Trade Agreements beyond just a review of trade and investment flows

- Improved market access to those countries we already have Free Trade Agreements with. This requires the removal of identified non-tariff barriers in these countries and adequate measures to ensure that penalties can be applied if they are not removed.

  Of most importance in terms of existing agreements is the United States where the yarn and fibre forward RoO and the Berry Amendment present significant if not impossible obstacles for the majority of companies to overcome. In terms of those under negotiation those with China and ASEAN present the biggest opportunities for Australian companies.

- A clear statement that unless the NTB's identified by the TFIA and other manufacturing sectors are fully addressed in the China and ASEAN agreements then no agreement will be reached between the two countries.

- Adoption of all of the principles outlined by the Trade Remedies Task Force in respect to anti-dumping and other safeguards available to Australian manufacturers;

- Review the flexibility of existing government programs related to trade such as the EOAP and EMDG to ensure that existing TCF companies can remain globally competitive. This should include consideration of a raising of the EMDG cap to $60 million to better capture medium sized businesses;

- The separation of Trade from Foreign Affairs with its relocation back into industry will remove the diplomacy inherent in trade decisions and negotiations. Alternatively a stand alone department like the USTR would also be preferable to the current arrangements

- Reduction of the company tax rate from 30% to 25% over the next five years

- Give further consideration to the taxation treatment of depreciation of assets

- Streamlining of government regulation which duplicates, contradicts and/or hinders the effective development and growth of the industry. This includes the removal of unnecessary cost burdens such as land tax, payroll tax and in those states where applied fire services levies. This needs to also incorporate a removal of the bureaucracy accompanying government assistance programs such as 70 page contractual agreements for small business grants of no more than $50,000, quarterly reporting which takes more time to complete than the project and access to effective assistance for companies seeking to complete an application.

- Explicit recognition in all Government Procurement activities that Australian content will be provided with a degree of recognition. Further to this the TFIA would ask that all procurement officers attend training on costing the entire process of ordering as opposed to focusing on the end price. That is, to take account of the freight, insurance, stock holding and potential costs if product is not to specification in establishing tenders.

  For specialised tenders such as those related to defence, emergency services or other specialised government agencies specifications should be developed in a transparent fashion through the use of specialised reference committees as opposed to a single company.

- Work with the TFIA to assist in the delivery of government information to companies particularly small designers. This should include increased support to innovative fashion and textile designers through both the SIP and TCF Small Business program;

- Review the current system of training delivery in Australia to assess the efficiencies of having a federally developed system delivered eight different ways against a single system implemented at the national level;

- Provide greater taxation incentives to companies for approved training expenses in addition to offering reduced or zero HECS fees for key manufacturing related qualifications;

- Introduce TCF as a skills area into the Technical Schools program as another area of focus

- Continue reform of the industrial relations environment to produce a flexible, consistent, transparent and easy to understand system that clarifies among other things the principles of the registration of factories and the Homeworkers Code of Conduct. Related to this is the need for clear advice to be provided on the obligations for TCF companies when it comes to their employees

- Continue to support the CSIRO and other research groups as the principal national research agency for Australia and ensure that it maximises its interactions with industry.

- Provide funding support to the Australian TCF Technology Network to ensure it has national coverage. Currently this network is supported only by the Victorian Government and while interest has been shown by both New South Wales and Queensland a national focus would make considerably more sense.

Submission end