

Chapter Three

ISSUES

3.1 In adopting Selection of Bills Committee Report No. 9 of 2004, the Senate asked the Economics Legislation Committee to consider the following substantial list of issues:

- whether the Strategic Investment Program (SIP) bill assists small and medium sized enterprises (SMEs) to access government assistance;
- whether the legislation improves market access overseas;
- whether the phase-down of SIP funding from 2009 threatens the future of the industry and employment;
- whether the legislation provides adequate support for high value exports;
- whether the legislation provides adequate support for R&D activity;
- whether the legislation provides adequate support for production value added activity;
- whether the reduction in grant types from 5 to 2 will decrease access for some TCF firms;
- whether the cut in tariffs will have an adverse effect on the industry, economy generally, employment and sustainability of regional cities and towns;
- whether our trading partners are reducing tariffs at the same rate as Australia; and
- the combination of these two bills and provisions in the United States Free Trade Agreement will adversely impact on the future of the industry and on employment.

3.2 This chapter will consider those issues in turn.

The SIP and small and medium businesses

3.3 From its commencement, the design of the SIP included a requirement that grant recipients spend at least \$200 000 in the grant year on plant and buildings, research and development, or value adding.¹ The explanatory memorandum for the Textile Clothing and Footwear Strategic Investment Program Bill 1999 stated:

1 Textile, Clothing and Footwear Strategic Investment Program Scheme 1999, s.79(1).

Recent ABS data indicates that around 96% of all TCF establishments have annual investment levels below the SIP entry threshold of \$200,000. Hence, the program will be accessible initially by only a limited number of larger firms, (estimated at around 300). However small firms under this program have the opportunity, if necessary, to build up their investment over the 5 years of the program to reach the entry limit of \$200,000.

3.4 Consequently, the SIP was not designed to target small and medium businesses. Since its commencement, however, there have been representations from within the industry that the threshold should either be lowered or eliminated, so that small and medium TCF enterprises may obtain a share of the SIP funding. During this inquiry, the Committee attracted further representations on this point. The TCF Union of Australia, for instance, stated:

Basically, the current scheme only provides for a small minority of companies within the industry. It is a scheme that, in reality, completely ignores the small and medium enterprises within the industry. Four hundred out of 4,900 companies in the industry received money under the current SIP. Sixty per cent of the work force is represented in those 400 companies, so it is perhaps not as great a discrepancy as it may first appear, but we are still talking about 4,500 companies and 40 per cent of the employment in the industry receiving no SIP funding.²

3.5 The Productivity Commission Review of TCF Assistance received similar requests, and made the following observation:

The current minimum spending threshold and high compliance costs can make it difficult for small firms to secure SIP funding. The threshold is partly intended to reduce administrative costs by limiting the number of claimants and the likelihood of many small claims. But it also carries the assumption that small firms are not able to undertake significant investment or R&D/innovation, and that the future of the industry lies with large enterprises. As the Department's review of the SIP noted, any reduction in the threshold would also spread available funding more thinly and therefore reduce its capacity to improve the competitiveness of recipient firms.

3.6 In the current inquiry, the Committee received evidence supporting the retention of the current SIP threshold and stating that the threshold was important to drive investment in the industry:

The framework for the TCF (SIP) Scheme is based on the premise that the key to sustainable and internationally competitive TCF industries in Australia lies in significant investment in new plant and equipment and R&D/product development. The Scheme is meant to encourage these activities and provide tangible benefits to businesses that do engage in them. For these reasons, and in the interests of containing administrative costs of the Scheme, the five year \$200,000 threshold was adopted; this

2 *Transcript of Evidence*, Kitchener, 3 August 2004, p. 21.

equates to an expectation that a firm would invest an average of at least \$40,000 per year for the life of the Program.

Data sourced from the Australian Bureau of Statistics showed that five per cent of the 6,000 firms in the TCF industries in 1995–96 accounted for 96 per cent of the industry gross product of just over \$3 billion.³

3.7 One option discussed by the Productivity Commission was a separate scheme for small to medium enterprises, funded out of the current SIP funding allocation. However the Productivity Commission identified a range of administrative and definitional issues which may inhibit the successful operation of such a scheme:

Developing a separate transitional assistance scheme for small firms ... would bring a host of challenges too. These would include: defining the meaning of small firms for the purpose of the scheme; setting eligibility thresholds to avoid spreading assistance too thinly; and defining the scope of activities to be assisted.⁴

3.8 The Productivity Commission concluded, on balance, that the implementation of such a scheme may be too difficult. Notwithstanding this view, the current bill commits \$25 million over ten years to a new grants program, to be called the TCF Small Business Program,⁵ to be administered by AusIndustry.

3.9 In addition to this new sector-specific program, the Committee noted that the Government has implemented a range of more general industry policy measures which may benefit small and medium enterprises in the TCF industry. TCF companies may, for instance, obtain the R&D Tax Concession. They may apply for grants under the R&D Start scheme. They may also apply for grants under the Small Business Assistance Program.

3.10 The Committee concludes, on this point, that the current legislation, by implementing the TCF Small Business Program, provides small and medium businesses in the TCF sector with substantially more support than is already available to them under other cross-sector programs.

Market access

3.11 The Selection of Bills Committee requested that this Committee consider whether the proposed bills will improve market access overseas. This question does not relate directly to the current bills, neither of which has market access as an explicit objective. The Committee received almost no evidence on this point.

3 Additional information, Department of Industry, Tourism and Resources, p. 7.

4 Productivity Commission (2003) *Review of TCF Assistance*, Report No. 26, p. 130

5 See item 12, proposed Part 3B, s. 37ZJ.

3.12 The Committee did, however, receive evidence indicating that obtaining better access to overseas markets remains important to the TCF sector. The Carpet Institute of Australia, for instance, stated:

The nature of the impediments is tariffs which apply to pretty much all Asian countries with the exception of Hong Kong and Singapore. All the other countries enjoy larger tariff rates than we have in Australia.⁶

3.13 The Committee notes that the Government is committed to pursuing free trade, and therefore increased access to overseas markets, through multilateral bodies such as the WTO and APEC, and through bilateral measures such as the Australia-USA Free Trade Agreement. This effort will inevitably result in more open export markets for the full range of Australian goods and services, including TCF goods and services.

3.14 However, in order to continue to participate effectively in these agreements, Australia must demonstrate its own commitment to free and open trade. The Customs Tariff Amendment (Textile, Clothing and Footwear Post-2005 Arrangements) Bill 2004 does this, by reducing tariff protection for the TCF industry. The Explanatory Memorandum notes that:

Legislating these changes now will demonstrate Australia's commitment to achieving its APEC commitment to "free and open trade" without causing unnecessary pain to a particularly vulnerable part of the economy. Stepping down rather than phasing down the rates will be more acceptable to industry as it provides extra time for adjustment and will be simpler to implement.⁷

3.15 The Committee therefore concludes that, while these bills themselves are not directed towards the development of market access, they are an important way for Australia to demonstrate its commitment to free trade, and this commitment will in time result in increased market access for Australian companies.

SIP funding after 2009

3.16 The Selection of Bills Committee requested that this Committee consider whether the phase-down of SIP funding from 2009 threatens the future of the industry and employment.

3.17 Currently, the final year for SIP claims is 2004/05, with claims to be paid out in 2005/06. The current bills propose to extend the scheme through to 2009/10 for all eligible TCF activities⁸, and through to 2014/15 for clothing and certain finished textiles. The funding from 2005/06 to 2009/10 will total \$487.5 million, and the

6 *Transcript of Evidence*, Garrett, 3 August 2004, p. 4.

7 Explanatory Memorandum.

8 Leather and technical textiles are not eligible for Type 2 grants under this scheme, as discussed in Chapter 2.

funding from 2010/11 to 2014/15 will total \$87.5 million. This second, smaller figure represents the "phase-down" noted by the Selection of Bills Committee, and results from the fact that in this second period, funding will be restricted to clothing and certain finished textiles.

3.18 In the Committee's view the SIP is not, and should not be seen as, a subsidy payment to keep the TCF industry operating. Rather, the SIP provides assistance to larger companies in order to enable them to become or remain competitive. The extension of the SIP through to 2009/10 for all eligible TCF activities, and through to 2014/15 for clothing and certain finished textiles, should be seen as an additional opportunity for the industry to become competitive.

Support for high value exports

3.19 High value, differentiated, niche products have repeatedly been identified as the area within the broader TCF sector where Australian firms can be world competitive. The Productivity Commission report, for instance, stated:

As many participants in the inquiry acknowledged, the future of an internationally competitive Australian TCF sector lies elsewhere — mainly in the manufacture of differentiated, high value, innovative products where labour costs are not the primary driver of market success ...⁹

3.20 The Committee notes that the general objective of TCF policy in recent years has been to focus on these areas where Australia can be competitive, and to facilitate adjustment out of areas (such as generalised apparel products) where Australian companies will inevitably succumb to more competitive overseas companies.

3.21 This policy objective is reflected in the design of the SIP. Type 1 Grants support the acquisition of state-of-the-art equipment necessary to produce innovative, high value products which can be successfully exported. Type 2 Grants focus specifically on research, development and innovation, and therefore directly support the competitiveness of companies producing innovative, high value products. The extension of the SIP will therefore be welcome news to innovative TCF companies.

3.22 It is clear to the Committee that the SIP provides funding in those areas most likely to contribute to the development of high value TCF products. In particular, the SIP grants contribute to the international competitiveness of companies engaged in the development, manufacture and export of such products. Support in this form will inevitably result in increased exports of high value TCF products, because those products will be able to compete successfully on world markets without the need for continued subsidies from the government. The Committee noted the submission of the Council of Textile and Fashion Industries of Australia, which stated:

9 Productivity Commission (2003) *Review of TCF Assistance*, Report No. 26, p. XIX.

High value added products come from the ability to use technology and innovation to enhance the value of inputs. These aspects are encouraged by the SIP scheme.¹⁰

3.23 The Committee did not receive specific evidence suggesting that the level of support for high value exports is inadequate. The Committee considers that the proposed legislation does provide adequate support for high value products.

Support for research and development

3.24 Support for R&D in the TCF industry has always been a core focus of the SIP. Type 2 grants under the SIP are awarded for innovation and R&D, and therefore directly support research and development. The amount of this assistance has been substantial: \$28.3 million in 2000/01; \$35.7 million in 2001/02 and \$42.1 million in 2002/03.¹¹ As noted elsewhere in this report, Type 2 grants will continue under the current scheme, with grants amounting to an increased proportion of eligible expenditure.

3.25 Under the scheme proposed in the bills, leather and technical textiles will not have access to SIP grants for Research and Development after 2005. Representatives of these sectors requested that this access be extended. The Technical Textiles and Nonwoven Association, for instance, stated:

As you can imagine, we were somewhat dismayed to discover that we were precluded from accessing R&D grants in the future—that is, post 2005. The reason given in the *Bills Digest* is:

... textile firms are not facing the same extent of restructuring pressures as other sectors of the TCF Industry, nor are they ... facing the prospect of significant tariff reductions.

The second part, I agree, is mainly correct for a number of our members but certainly not for all of them. We refute also that we are not facing the same extent of restructuring pressures. We all know that we live in a global environment and we operate in a global society. We have the same external pressures as all other textile firms. In fact, we believe that the external pressures placed on us are somewhat greater than those placed on some of the other textile companies, simply because we face tariffs of five per cent. The pressures coming from overseas, particularly with the strengthening dollar, are far greater on us than on those companies receiving tariff protection—maybe 15 to 20 per cent. So we refute the fact that we do not face the same pressures and therefore do not need R&D grants.¹²

3.26 As noted elsewhere in this report, the rationale for this exclusion is that the technical textiles sector does not face further tariff cuts. The extension of the SIP

10 Submission 8, Council of Textile and Fashion Industries of Australia, p. 6.

11 Information supplied by the Department of Industry, Tourism and Resources.

12 *Transcript of Evidence*, Taylor, 3 August 2004, p. 31.

proposed in the current bills will continue funding for research and development in those areas of the industry which face further tariff cuts, and will therefore clearly have a positive impact on research and development in the industry.

Support for value adding

3.27 The Selection of Bills Committee requested that this Committee consider whether the legislation provides adequate support for production value added activity. The Committee assumes that this area of concern emerges from the removal of type 3 grants (value adding grants) from the SIP program as proposed in the current bills.

3.28 The removal of type 3 grants was proposed by the Productivity Commission, which stated:

... the Commission considers that Type 3 assistance should be discontinued. As currently implemented, these grants simply increase the rates of subsidy for investment in plant and equipment and spending on R&D and innovation. But the way they are paid means that the increased rate of subsidy can vary arbitrarily among firms. Discontinuing these grants would help to simplify the new regime. It would also release funds that could be used to increase the subsidy rates for investment and R&D, and/or to pay for the eligibility extensions outlined above.¹³

3.29 The current bill has adopted the Productivity Commission's recommendation, for much the same reasons. The explanatory memorandum states:

Removing value added grants will eliminate a major source of confusion amongst applicants over policy intent while reducing firms' record keeping and compliance costs.¹⁴

3.30 The removal of type 3 grants does not, however, mean a reduction in support for value adding. Currently, type 3 grants are based in part upon a company's receipt of type 1, 2 and 4 grants. Instead of continuing this 'piggy-backed' arrangement, which has produced the uncertainties and anomalies described by the Productivity Commission above, the current bills deliver the funding directly, via an increase in the rate of subsidy to be paid out under type 1 and type 2 grants.

3.31 Type 1 grants can currently fund up to 20% of total eligible expenditure on new plant, equipment or buildings. Under the current bill, this rate will double to 40%. Type 2 grants currently fund up to 45% of eligible expenditure on research and development. Under the current bill, this rate will rise to 80%.

3.32 The Committee noted the submission from Godfrey Hirst Australia Pty Ltd, which stated:

13 Productivity Commission (2003) *Review of TCF Assistance*, Report No. 26, p. 134

14 Explanatory Memorandum.

To streamline the program, the number of grant categories [are] reduced from 5 to 2. This involved, among other changes, deleting the type 3 value added grants and correspondingly increasing the rates for investment (type 1 grants) and innovation (type 2). Overall, the level of support provided to firms for eligible activities will not change significantly as a result of this amendment to SIP.¹⁵

3.33 The Committee did not receive evidence opposed to the removal of type 3 grants, and considers that the current bill does not in any way reduce the available funding for value adding activities. Rather, it delivers that funding in a more efficient way, minimising complexity and compliance cost. In addition, by substantially extending the life of the SIP, the current bills increase the amount of support available for value adding.

Reduction in SIP grant types

3.34 The Selection of Bills Committee requested that this Committee consider whether the reduction in grant types from 5 to 2 will decrease access for some TCF firms.

3.35 Under the current scheme, there are five types of grants. The current bill proposes to reduce this to two. Type 1 and type 2 grants will remain, though as noted above their rates of subsidy will be substantially increased.

3.36 Type 3 grants, relating to value added, will be removed under the scheme proposed in the current bill. This issue is discussed immediately above, and will not result in a reduction of support for value added activity.

3.37 The bill proposes to eliminate type 4 and 5 grants, relating to restructuring initiatives, and to replace them with a structural adjustment fund. This issue is discussed further immediately below. However, it is important at this point to note that the number of TCF firms eligible for support under the structural adjustment fund will be significantly *higher* than the number of firms eligible to seek type 4 or type 5 grants.

3.38 The reduction in the number of grant types was not raised as a significant issue in evidence before the Committee. The Committee concludes that the proposal to reduce the number of grant types is unlikely to decrease access to grants for TCF firms.

Regional impacts

3.39 The Selection of Bills Committee requested that this Committee consider whether the cut in tariffs will have an adverse effect on the industry, the economy generally, employment and sustainability of regional cities and towns.

3.40 The current SIP scheme recognises that TCF industries are the mainstay of a number of regional areas. The scheme includes two forms of grant – type 4 grants, for purchase of second-hand equipment for use in restructuring programs, and type 5 grants, for miscellaneous and ancillary activities relating to restructuring – which are limited to initiatives occurring in TCF dependent communities.

3.41 TCF dependent communities are described under the SIP scheme as being:

- communities outside the capital cities;
- communities where TCF industries provide 10 percent of manufacturing employment *or* where TCF industries provides 5 percent of manufacturing employment in an area with higher than average unemployment.

3.42 Consequently, type 4 and type 5 grants are regional grants only.

3.43 The Productivity Commission, while noting that the economies of some regional communities are heavily dependent on TCF industries, also noted that the challenges associated with restructuring within the industry are likely to be as significant in capital cities:

There was no substantive evidence presented to the inquiry that, in general, individual TCF workers in the regions face higher adjustment costs than their counterparts in metropolitan areas, or vice versa. Many individuals, irrespective of their city or regional location, have characteristics which suggest that the adjustment costs likely to be imposed on them through loss of their current jobs could be high. On this count, there appears little basis for differentiating between metropolitan and regional areas in future TCF adjustment assistance.¹⁶

3.44 The current bill proposes to eliminate type 4 and type 5 grants, and to replace them with a Structural Adjustment Program, 'to fund specific initiatives for structural readjustment for restructuring of firms in both metropolitan and regional areas.'¹⁷

3.45 The Structural Adjustment Fund will have a total appropriation of \$50 million over ten years. When it is considered that the total amount of type 4 and type 5 grants issued in the period 2000/01 through 2002/03 was approximately \$3 million, it is clear that the new Structural Adjustment Program will not be shifting assistance away from regions towards metropolitan areas. Rather, the Structural Adjustment Program extends support to workers in metropolitan areas who (as noted above) may face similar difficulties during the process of restructuring.

3.46 The City of Greater Geelong, in its submission, considered that the size of the structural adjustment fund is too small:

16 Productivity Commission (2003) *Review of TCF Assistance*, Report No. 26, p. 50.

17 Explanatory Memorandum.

An increase in the dollar amount for structural adjustment programs is required as \$5 million per annum for the whole of Australia is far too small. Consideration should be given to allocating more dollars to regional areas where TCFL is a major industry and / or where unemployment is generally higher than in metropolitan areas. It makes sense to allocate more resources to areas that will have a large percentage of its workforce impacted by TCFL job losses. Similarly, it makes sense to allocate additional resources to areas where alternative employment opportunities are not as readily available as in capital cities such as Melbourne.¹⁸

3.47 The Government of Victoria took a similar view:

The Government is also concerned that the structural adjustment fund, which averages \$5m per annum over ten years, is not adequate to support workers displaced by large plant closures, given the estimates made of likely job losses over this period.¹⁹

3.48 The Committee acknowledges that structural adjustment within the industry will inevitably result in some challenges for regional cities and towns. The SIP package, along with other Government programs such as the Regional Assistance Program, provides support for initiatives to overcome those challenges.

Rate reductions from Australia's trading partners

3.49 Some witnesses before the inquiry were opposed to unilateral tariff rate reductions:

We have always argued that tariff reduction should not be of a unilateral nature and we have always argued that there should be a proper review process in place before there is further unilateral tariff reduction. We have always argued that.²⁰

3.50 In the Committee's view, rate reductions by Australia's trading partners are not central to the benefits which will flow from these bills. The benefits of trade liberalisation are widely understood, even where that liberalisation is undertaken on a unilateral basis. The Productivity Commission made the same point in the following terms:

Above all, linking Australia's assistance policies automatically to overseas policies would disregard what is in Australia's national interest. For instance, such linking would ignore the range of domestic considerations that have been central to assistance reductions for the TCF and other sectors over the past 15 years and which remain relevant to future assistance decisions. [...] these include the costs imposed on consumers and other Australian industries, including exporters, by TCF tariffs, as well as the

18 Submission 6, City of Greater Geelong, p. 2.

19 Submission 18, Government of Victoria, Covering letter, p. 2.

20 *Transcript of Evidence*, Garrett, 3 August 2004, p. 6.

potential productivity stimulus from exposing the sector to greater international competition.²¹

Interaction with the Australia-USA Free Trade Agreement

3.51 The Selection of Bills Committee requested that this Committee consider whether the combination of these two bills and provisions in the United States Free Trade Agreement will adversely impact on the future of the industry and on employment.

3.52 The provisions of the Australia-US Free Trade Agreement (AUSFTA) relating most directly to the TCF industry are found in Chapters 2 (Market Access for Goods), 4 (Textiles and Apparel) and 5 (Rules of Origin) of the AUSFTA. In short, they provide for staged reductions in tariffs for most TCF products with a view to what the AUSFTA refers to as *national treatment*. In other words, once the staging process is complete, products from the USA will be treated in the same manner as products from Australia.

3.53 The staging process is outlined in Annex 2-B to Chapter 2 of the Agreement. This chapter outlines in exhaustive detail the impact on thousands of items of manufactured goods. Some key items for the purposes of this inquiry are as follows:

- *Apparel*: Tariffs on apparel imported from the USA will be reduced to nil immediately that the AUSFTA comes into force.
- *Yarns and many technical textiles*: These, and many other TCF products whose tariff rate is currently 5%, will have that rate reduced (for imported US products) to 3% when the agreement enters force, and to nil on 1 January 2010.
- *Carpets*: Carpets which currently have 15% tariff protection will have this protection reduced to 8% on imported US products once the agreement commences, then 3% on 1 January 2010, then finally nil on 1 January 2015.

3.54 In addition to the phased reduction of tariffs, the AUSFTA contains an important provision which would enable the government to act to protect local industry from destruction if the FTA precipitated a flood of imports. The provision, Article 4.1(1), states:

1. If, as a result of the reduction or elimination of a customs duty under this Agreement, a textile or apparel good benefiting from preferential treatment under this Agreement is being imported into the territory of a Party in such increased quantities, in absolute terms or relative to the domestic market for that good, and under such conditions as to cause serious damage, or actual threat thereof, to a domestic industry producing a like or directly competitive good, the importing Party may, to the extent and for such time as may be necessary to prevent or remedy such damage and to facilitate

21 Productivity Commission (2003) *Review of TCF Assistance*, Report No. 26, p. 94.

adjustment, take emergency action, consisting of an increase in the rate of customs duty on the good to a level not to exceed the lesser of:

(a) the most-favoured-nation (MFN) applied rate of duty in effect at the time the action is taken; and

(b) the MFN applied rate of duty in effect on the date of entry into force of this Agreement.²²

3.55 In other words, if necessary, the Government may move to impose the same tariffs on US TCF imports as are imposed on other trading partners, but only as an emergency measure to prevent the local industry from failing.

3.56 In return, Australian TCF companies obtain increased access to the US market. Access to the US market will be limited by what is known as the 'yarn forward' rule, whereby goods are regarded as originating in either Australia or the USA if they are made from yarn produced in Australia or the USA. In its submission to the recent Senate Select Committee on the Free Trade Agreement Between Australia and the United States of America, the TCF Union of Australia expressed concerns on this point:

The US system is what is called the 'yarn forward' rule. That is, goods can be made-up overseas (the labour component being the costly part) as long as they are made-up using American yarn. This is how they protect their domestic textile industry. [...]

The bulk of Australian TCF industry (up to 80%) cannot meet US yarn-forward rules because much of our yarn is sourced from Asia. Most US companies meet this rule which means that by 2015 the benefits of the FTA will only flow to US companies.²³

3.57 The government has made it clear that it argued against the 'yarn forward' rule, but was forced to compromise on this point:

With the support of Australian industry, the Government also sought to have [the general approach to rules of origin] applied to the textiles and clothing sector rather than the special 'yarn forward' rule proposed by the United States side, but was unable to persuade the US to move from this position.²⁴

3.58 Notwithstanding the ongoing effect of the yarn forward rule, it will be up to the TCF industry to take advantage of the opportunities offered to it by the AUSFTA.

22 Australia-US Free Trade Agreement, Chapter 4, Article 4.1(1).

23 Senate Select Committee on the Free Trade Agreement between Australia and the United States of America, submission 204, TCF Union of Australia, p. 1.

24 Senate Select Committee on the Free Trade Agreement between Australia and the United States of America, submission 161, *Regulation Impact Statement*, Department of Foreign Affairs and Trade, p. 22.

The Agreement should be seen as an opportunity for those Australian TCF companies who are truly world competitive to increase their share of the US market.

Other issues

3.59 Two other issues were raised in the course of the inquiry. While these do not relate directly to the content of the bills, the Committee considers it important that these issues be addressed.

Outworkers in the TCF Industry

3.60 The Committee heard a substantial amount of evidence relating to the continued employment of outworkers in substandard conditions in the TCF industry. Ms Qi Fen Huang, from Asian Women at Work, described the experiences of some outworkers in the following terms:

One of the outworkers sews swimwear. Ten years ago she received \$17 an hour to make the sample and the orders, but for the last three years she has received \$7 an hour for a similar type of garment. This low rate of pay and culture of working hard means that she is working more hours, such as 12 hours a day, or 16 hours a day in the busy season, to get enough income for her family. She told me one experience to do with her health. One day, when she drove her car on the way back from delivering her order to her employer, suddenly she could not see anything in front of her. She had to stop her car on the roadside for more than 20 minutes. After that, she was very scared and called her husband to come and drive the car. Since that time, more than one year ago, she has stopped driving.

The other outworker works in the fashion industry. She has made ladies' blouses for more than 15 years. She used to receive \$11 per garment. But in the last five years she has received only \$5.30 per garment and has got more complicated work, such as joining 13 pieces in a garment. There were 13 different pieces to put together in the garment. She usually starts work at six o'clock in the morning. If there is the stress of an urgent order, she has to start work when she wakes up, at three or five o'clock. In the last three years she has had two miscarriages. She still wants to have a baby for her husband.²⁵

3.61 In 1997, the Senate Economics References Committee examined the issue of outworkers in detail. The Committee's report, *Outworkers in the Garment Industry*, made a series of recommendations intended to provide outworkers with safe working conditions free from economic exploitation. The Committee is disappointed that, nearly seven years after the tabling of that report in December 1997, it is still hearing evidence of the continued and systematic exploitation of outworkers in the TCF industry.

3.62 In its 1997 report, the References Committee stated:

The Committee believes that the draft voluntary industry 'Homeworkers Code of Practice' originally promoted by the Council of Textile and Fashion Industries of Australia could be an important step in changing the circumstances under which outworkers are employed. The Committee fully endorses this approach and encourages all parties involved in garment manufacture to become parties to such a Code.²⁶

3.63 The Committee remains of this view. All participants in the TCF industry should sign up to the Fair Wear Homeworkers Code of Practice, or to an equivalent code of practice, and end the exploitation of outworkers in this industry.

Consultation processes

3.64 During the hearings on this bill, questions were regularly raised regarding the consultation process which the Department of Industry, Tourism and Resources undertook in developing this bill. Some organisations felt that the consultation process was effective:

We have been involved with government fairly intimately over a lengthy period of time. As an industry, we have sometimes requested further involvement with government and most of those requests have been met. Certainly from our industry's point of view I would suggest that we are comfortable with the degree of consultation. I do not know whether my colleagues would have anything to add to that.²⁷

3.65 Others were clearly more disappointed:

If there was a compromise reached and an arrangement made between parts of the industry and the government on what would clearly be seen as a trade-off on the issue of further tariff reductions to secure a certain amount of SIP funding, that was not done with the involvement of this union or any organisation that actually represents workers. I think that is a fundamental flaw in any negotiations. If you are talking about trying to have smart and strategic industry policy, you need to have all the stakeholders around the table. You need to have around the table the people that understand the future of the industry in terms of products and innovation and the great strengths that our industry has as far as how we can grow exports as well as our domestic markets; but you also need the people that understand the cold, hard reality of dealing every day of our working lives with the faces of workers who have lost their jobs through no fault of their own other than having contributed many years of hard and skilled work to an industry that is declining as a result of government policies, without any adequate consideration of the future of those workers and their communities.²⁸

26 Senate Economics References Committee, *Outworkers in the Garment Industry*, December 1997, para 5.37

27 *Transcript of Evidence*, Szakiel, 3 August 2004, p. 2.

28 *Transcript of Evidence*, O'Neil, 3 August 2004, p. 23.

3.66 The Committee carefully questioned witnesses from the Department of Industry, Tourism and Resources on this point, and received additional written information from the Department regarding the consultation process. Because this issue was a source of some contention during the hearing, it is worthwhile setting out the Department's response in full:

The Minister wrote to key industry associations, major TCF companies, the Textile Clothing Footwear Union of Australia, and his state ministerial counterparts on 27 November 2003 advising them of the Government's Post-2005 TCF package.

The Technical Textiles and Non-Woven Association (TTNA) and Australian Association of Leather Industries (AALI) were part of the industry associations to receive a letter from the Minister. In particular the letter to these two associations detailed the Government's policy that there would be redirection of program support to those firms that still faced tariff adjustment, and as a result technical textiles and leather firms respectively would only be able to access Type 1 grants for new capital equipment under the extended TCF SIP Scheme. These two associations were also advised that amendments to the current TCF SIP would be made to remove the 5 per cent value added cap applying to Type 3 grants for technical textiles and leather firms, thereby potentially increasing the support that these firms can draw from the final two years of current Scheme.

All current TCF SIP registrants (at the time of the announcement) were advised of the Government's Post-2005 TCF package by letter during the first week of December 2003.

Details of the Post-2005 TCF package were also posted on the Department's website on 27 November 2003.

The Department undertook a series of formal information and consultation sessions over the period February 23 through to March 1, 2004 in Perth, Adelaide, Melbourne, Launceston, Sydney and Brisbane

All SIP registrants were faxed invitations on 23 January 2004 and provided with a summary of the proposed key changes to SIP. Advertisements were also placed with the ATF Portal (an industry-based website) and the Australian Financial Review. In addition, the Department also wrote to key industry associations (including the TTNA and AALI) and the TCFUA inviting them to attend the sessions. The seminars were also promoted in AusIndustry's newsletter *TCF Strategic News*. Attendees at the sessions were provided with an overview of the Government's Post-2005 TCF package, and asked to provide comments and feedback on the proposed changes by March 19, 2004. The slide presentation used at the presentations is attached.

Additionally, a presentation on the Post-2005 TCF package was given in Geelong on March 11, 2004.²⁹

29 Additional information, Department of Industry, Tourism and Resources, p. 1.

3.67 In the Committee's view, the consultation process outlined by the Department is fulsome and comprehensive. It includes all major stakeholders, includes face to face discussions in all states, and in TCF dependent communities. The Committee therefore considers that criticism of the Department's consultation process is unwarranted.

Recommendation

The Committee recommends that the Senate pass this bill.

SENATOR GEORGE BRANDIS
Chair