Submission by the Textile, Clothing and Footwear Union of Australia into the Senate Committee Inquiry into the provisions of the Textile, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 scheme) Bill 2004

and the Customs Tariff Amendment (Textile, Clothing and Footwear Post-2005 Arrangements) Bill 2004

July 2004

Summary

The Federal Government is unnecessarily tying the tariff reduction bill to industry assistance in an obvious attempt to blackmail the industry into accepting unjustified and ideological tariff reductions that will wreak further havoc on an industry already suffering the effects of previous reductions. There is no sensible reason to tie the two bills together.

The TCFUA supports assistance to industry but believes the current package of assistance should be altered to reflect a fairer balance for industry participants.

Specifically the TCFUA is seeking:

1. That the connection between the two bills should be severed.
2. That the tariff amendment bill should be voted down
3. That the SIP bill should be amended to include:
    - a lower threshold of eligible expenditure for companies;
    - An employment impact statement as part of the Strategic Business Plan reporting and accountability requirements;
    - Tightened eligibility to ensure that only genuine Australian manufacturers have access to the scheme;
4. A TCF-LAP bill should be enacted to create a Labour Adjustment Program which includes the following:

- 12 months of vocational retraining;
- an additional 12 months of English language and literacy training for workers who are disadvantaged by their non-English speaking background and/or their poor literacy;
- a non-means tested TCF Special Allowance for the duration of retraining
- a wage subsidy paid to employers who hire eligible workers for vacant jobs;
- a relocation allowance.

The new TCF-LAP bill should also ensure that union-based liaison officers from the industry are employed to help implement the provisions, to act as advocates and to provide information about LAP at factories, Centrelink and community agencies.

Funding for the TCF-LAP should be $100M over five years.[1] Half of the funding can be provided from the proposed $50M Structural Adjustment Fund and the other half to be new funding.

5. Legislation establishing a tri-partite Australian TCF Industry Council with adequate funding to focus on creating and maintaining Australian TCF employment with an emphasis of focussing on high value-added exports.

[1] The TCF-LAP program that ran from 1991-6 was funded for $92M

<u>Tariff should not be tied to SIPS</u>

There is no logical reason to tie the SIPS legislation for post-2005 assistance with tariff reduction legislation which does not come into effect until 2010. As can be seen from the following table there has already been substantial tariff reductions in recent years and there is no time related reason to legislate for further reductions.

SECTOR	1991	1997	2000 - 2004	Legislated changes for 2005	Proposed changes 2010	Proposed changes 2015
Clothing & finished textiles	55	34	25	17.5	10	5
Cotton sheeting & woven fabrics	40	22	15	10	5	5
Carpet	25	19	15	10	5	5
Footwear	45	24	15	10	5	5
Other	10	5	5	5	5	5

The tariff reductions which have already been legislated for 2005 remain in effect until 2010. Even if you support further tariff reductions there is no need for tariff reduction legislation to be in place until 2009.

The Federal Government is seeking to force the industry to accept tariff reductions as the price for further industry assistance despite there being no evidence that this will result in benefits to Australians.

The recent Productivity Commission review of the industry found no evidence that further reductions will result in benefits. The PC's own economic modelling shows that the gains from removal of industry assistance are 'very small'.[2] Their estimates are that it would cost 75cents per Australian per year to assist the TCF sector.

The PC's economic modelling also shows that removal of TCF assistance will result in deterioration of Australia's current account deficit through an increase in imports.[3]

Australia is leading the world with tariff reductions for ideological reasons and the Federal Government is at the forefront of sacrificing the TCF industry for perceived benefits for other industries. The recent free trade agreements with Thailand and the USA are a case in point. The TCF industry has been sacrificed in both these agreements without any real gains elsewhere. These agreements will compound the current problems of the industry and should a free trade agreement be negotiated with China (as the government intends) the effect on the industry will be enormous. The global industry is also facing in January 2005 the end of quotas in the European and US markets and the implications of this are profound for all TCF industries outside China.

To tie general tariff reductions to industry assistance is to blindly pursue an ideological approach to industry policy that benefits no-one. The gains are all theoretical but the costs are real. The TCF industry has experienced substantial employment losses over the past decade and policies that seek to decrease tariffs further when our trading partners are not following our lead will only exacerbate the problem.

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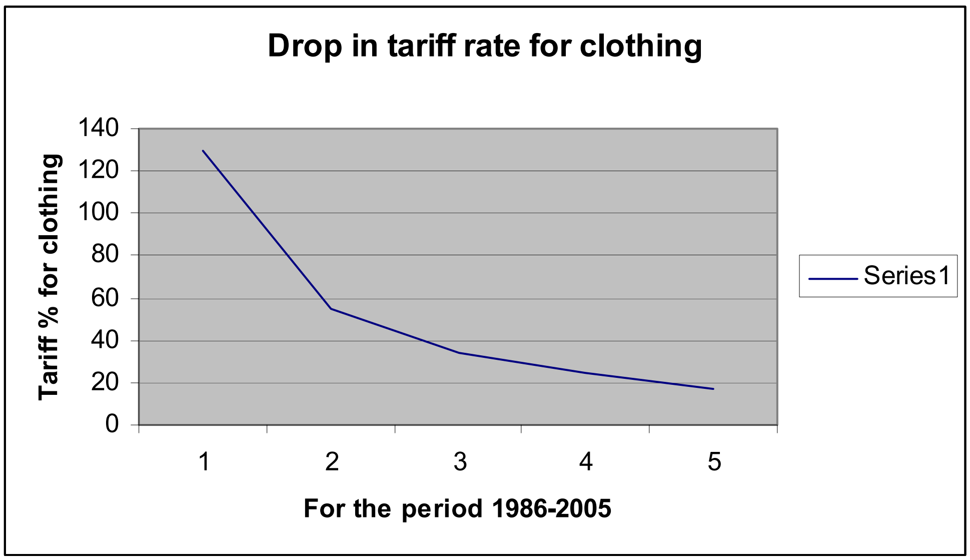
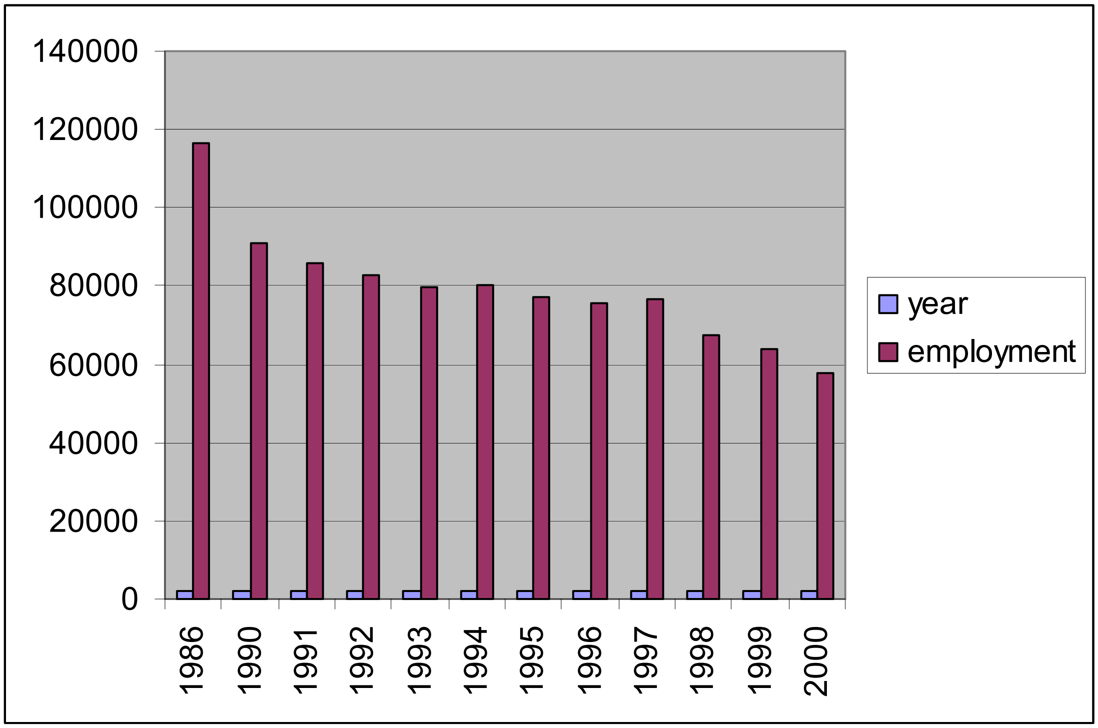
[2] Productivity Commission Postion Paper. April 2003. Page 200.
[3] Ibid. Page 201.

There is no recognition by the Federal Government or any evidence forwarded as part of the Productivity Commission (PC) review of the linkage between lower tariff rates and lower rates of TCF employment. The below graphs, which were included as part of the TCFUA's initial submission to the PC, clearly show a direct linkage between the two. The Federal Government refuses to acknowledge any such linkage and therefore is content to recommend further tariff reductions.



Graph 1 shows how dramatically TCF tariffs have fallen in recent years[4]

[4] IAC 1997 Report, Pg 394.



Graph 2 shows the steady decline in TCF employment since 1986[5]

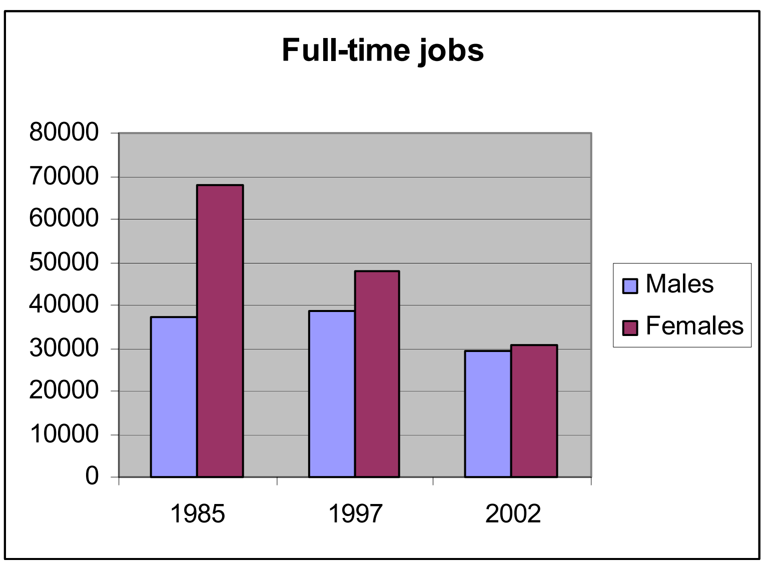
Because the PC's modelling was so inconclusive in terms of benefits of these reductions it conceded that "No absolute science can be brought to bear in weighing up these considerations"[6] In other words, the PC is arguing the Federal Government should implement a policy of radically reduced tariffs and industry assistance based on the intuition of the PC Commissioners and the Federal Government has accepted this advice and is now blackmailing the industry to accept this as the price for further industry assistance.

The Federal Government or the Productivity Commission have never presented any evidence regarding the economic costs of job losses because its economic modelling has a base assumption that **ALL** displaced TCF workers find other jobs despite much evidence to the contrary. Similarly, they have presented no

[5] ABS. TCFL Employment. ANZIC 4d by Financial Year.

[6] Ibid. Page XXIX

evidence regarding the economic cost to regional Australia of further job losses. Whilst the PC outlines the modelling done for the PC on regional implications, this modelling is based on no nett job losses in regional Australia ie. if Victoria loses jobs, other states gain. This is not based on reality and therefore should be ignored. Past experience (the best modelling we have to go on) suggests that regional workers displaced by TCF closures find it harder to find new employment especially where TCF assumes a high proportion of the total workforce. The WAGE study by Monash University (see page 14) is strong evidence of the employment problems TCF workers face. There is no recognition by the Federal Government in their TCF package or by the PC in their review that females have borne the brunt of job losses over the past decade. Full-time female employment has suffered the most since tariff rates began reducing in the late-1980s. In 1985 there were 67,000 full-time female jobs. This had reduced to 30,000 in 2002. Male full-time jobs over the same period fell from 37,000 to 31,000.[7] The fact that many of these workers are also older and from a NESB contributes to their difficulty of finding new employment.



[7] ABS. Labour Force Data

Graph 3 shows how females have borne the brunt of full-time job losses in the TCF sector.[8]

The Federal Government and the PC are happy to tell us without any supporting evidence that tariff reductions are good for the community but there needs to be a proper assesement of the effects of tariff reductions. The Australian community needs to know:

- The economic cost of a sacked worker being on unemployment benefits. What does it cost to pay welfare and what revenue is lost through less taxation?
- What spending power is lost to the economy overall by this reduction in income?
- What is the flow-on effect of job losses to other business through both the closures of businesses and the loss of spending power?
- Are there resultant social costs through people spending long periods unemployed? Are these social costs (sickness, depression, alcohol or other drug abuse) calculated as being a real cost to society?
- Is the cost of lost skills ever calculated? If a worker has spent twenty years developing skills and these are no longer utilised is this considered an economic loss?
- When TCF factories close is there a calculation about the loss of business other businesses suffer as a result? Are the flow-on effects calculated for those companies who no longer supply or service machinery or provide raw materials? Are the effects on their suppliers calculated?
- Is the cost to regional Australia of workers and their families having to move to seek other employment ever calculated?

[8] ABS. Labour Force Data.

Changes to SIP

The current SIPS scheme is biased to particular industry sectors and is disproportionately favourable to the largest TCF companies. The TCFUA believes the scheme should be expanded to enable the inclusion of a broader range of companies. This can be achieved by lowering the eligible expenditure threshold from $200,000.

One of the key arguments put forward by the Federal Government for tying the tariff legislation to the industry assistance measures is that industry assistance is compensation for the effects of tariff reductions.

Besides contradicting their own arguments that all tariff reductions are beneficial for the industry this argument is flawed because all of industry do not receive industry assistance. About 400 of the 4900 TCF companies receive SIPS yet all 4900 companies are being asked to absorb the costs of tariff reductions. A lower threshold would increase the amount of eligible companies receiving assistance and would also ensure that TCF clothing companies, who are currently underrepresented in receiving SIPS, receive a more proportional share.

Small companies (less than twenty employees) constitute about 80% of TCF enterprises.[9] Yet, in 2002/3, companies of this size only comprised 25% of the companies actually receiving SIPS funding.

In August 2000/1 there were 4904 Textile, Clothing, Footwear and Leather businesses. In 2002/3 only 365 companies (Australia-wide) received SIPS funding.[10] Whilst there is no doubt those companies receiving SIPS are many of the larger employers in the industry, who should receive assistance, there can be

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[9] ABS. Operations by employment size of the Manufacturing unit. 2000/01

[10] Review of the Textile, Clothing and Footwear Strategic Investment Program Scheme. Department of Industry, Tourism and Resources. September 2002.

no debate that SIPS is a program accessed by only a small minority of the industry. Any new scheme must address this disparity.

One of the reasons for only such a small percentage of the industry accessing the scheme is because of the size of firms in the industry. Small businesses do not have access to the resources to put in applications. SIPS requires a dedication to paperwork and form-filling beyond the resources of the average small business, many of whom are just struggling to stay alive in an increasingly competitive environment. Larger companies have their own employees, or consultants, (or both) focussing on obtaining SIPS funding. Smaller companies will never have this luxury, so the current scheme will always be out of reach.

The current SIPS scheme also has an in-built bias against smaller companies. To access SIPS, companies must have eligible expenditure in excess of $200,000 in order to qualify for assistance. Many companies, who otherwise may meet the SIPS guidelines, cannot meet this threshold and therefore are excluded from the scheme.

Other changes to SIPS

The TCFUA believes that companies that receive Government funding should be required to include an employment impact statement as part of their Strategic Business Plan reporting and accountability requirements.

Whilst the TCFUA recognizes that there will examples (as there has been over the past five years) of companies upgrading their capital equipment through SIPS funding and reducing their workforce as a result, we believe Australian taxpayers would be appalled if companies were receiving government funding and using that money to specifically move jobs off-shore.

Conglomerate companies receiving SIPS funding should be required to include an employment impact statement for all of their group companies to ensure that SIPS funding is not being used by those companies who have no commitment to Australian manufacturing. You cannot have a situation where artificial company arrangements are being used to channel government funding into the effective relocation of Australian jobs off-shore. A tightly designed employment impact statement as part of the Strategic Business Plan reporting and accountability requirements will lessen the likelihood of this occurring. There should be a positive weighting in favour of those companies committed to maintaining and growing Australian employment.

The TCFUA also believes that the guidelines for SIPS funding should be tightly drawn to ensure that only genuine Australian companies manufacturing in Australia are eligible for industry assistance.

Displaced TCF Workers need special assistance

One of the key elements missing from the Federal Government's TCF package is any assistance for workers. There is no recognition that TCF workers, because of their age, their gender, because many are from non-English speaking backgrounds and because of their specific skills, need assistance if they become unemployed.

The Federal Government is in denial about the effects of unemployment on TCF workers. Despite the fact that the PC found that "Given the magnitude of adjustment still required in the TCF sector and the characteristics of the workforce, situations may arise during the tariff transition period where additional targeted support is warranted"[11] the Federal Government has completely ignored the plight of TCF workers.

The Department of Employment and Workplace Relations (DEWR) does not believe TCF workers deserve special support despite all evidence to the contrary.

In their evidence to the PC the DEWR quoted ABS statistics to argue their case that no special assistance was required for TCF workers. These raw statistics fail to take into account the fact that many TCF workers will not be listed in official unemployment rates because the high proportion of displaced workers in TCF are female and cannot claim unemployment benefits if their spouse is working. They also fail to take into account the issues raised in relation to the Disability Support Pension, that is, a large proportion of unemployed workers on government welfare are listed in other welfare categories and there has been a disproportionate growth in these categories over recent years. These figures also use official government definitions on 'employment' which are no real indicator of

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[11] Productivity Commission Positon Paper. April 2003. Page 96

whether a displaced full-time worker has found meaningful employment or as has just managed to obtain a temporary, part-time or casual job when what they were seeking was a permanent full-time position.

DEWR itself states that "Much of the employment loss in the TCF industry in the last fifteen years has been in occupations not requiring formal education. Employment loss in skilled occupations has been slight"[12] This, of course, is the very reason (combined with factors of age, gender and language skills) as to why TCF workers, in all previous studies, have found it more difficult to find work than other displaced workers. It is also the reason why when they do find work that it is often only casual and part-time work.

The Federal Government's position on unemployed TCF workers is in stark contradiction to a recent study of TCF workers undertaken by Monash University. The Centre for Work and Change in the Global Era (WAGE) study of over 300 displaced TCF workers in August 2003 found that:

- The mean time since retrenchment was 39 months - more than 3 years.
- Only 54% of those surveyed had found work and only one in five had found work broadly commensurate with their former TCF job in terms of hours, pay and conditions.
- Mean weekly earnings of all respondents before retrenchment was $409.44. At the time of the survey, post-retrenchment, it was $360.24, with the upper income range truncated.
- Although 96% had worked full-time before retrenchment, only 21% now work full-time, with the mean number of hours worked per week after retrenchment being 27. One-fifth of the sample has found only casual employment after losing their jobs - approximately the same number as have found full-time employment.
- Eighty-one percent had received no instrumental assistance from their past employer, the Government or any agency since retrenchment.
- Sixty-six percent had received no financial assistance from the Government since retrenchment. Of those who had received financial assistance, 29% had received unemployment benefits.

[12] DEWR submission to the PC. Page 19.

- People who found new work did so through friends, the newspaper, or sending out an application. Only 3% were re-employed through Centrelink, and 4% through a job agency.
- The three major problems respondents cited post-retrenchment, were:

    - Not enough money to live;
    - Lack of TCF jobs; and
    - Employers, Centrelink and job agencies perceived the retrenched as too old.

To properly assist these TCF workers who may be displaced the Senate needs to ensure that a properly funded Labour Adjustment Program is legislated. The Federal Government's current TCF package does not address this issue.

An Australian TCF Industry Council

All recent studies of the TCF Industry (PC review, TCFL Forum Strategic Plan) identified a weakness of the TCF industry as being the lack of a coherent identity.

The TCF&L forum found that "The range and variety of TCF&L industry bodies makes pursuit of common interests and co-ordination difficult, but not impossible. The industry needs its own recognizable leaders and spokespeople, and it needs mechanisms to discuss common interests and resolve common challenges."[13]

An Australian TCF Industry Council would be the appropriate body for this to occur. A tripartite industry council with a focus on investment, exports and innovation would greatly assist the industry to achieve a common purpose critical for to its survival.

Currently there are few, if any, opportunities for all key players in the industry to engage in constructive dialogue about its future. A properly funded Industry Council would be the ideal vehicle for this to occur and would also enable the ongoing development of policies and strategies to achieve the aim of creating viable long-term employment in the industry.

[13] TCF&L Strategic Plan. June 2002. Page 10.