Carpet Institute of Australia

Presentation to Senate Economics Legislation Committee

July 2004

The Carpet Institute of Australia

- The Institute is the national industry association representing the collective interests of the Australian carpet industry

- The Institute's members account for 95% of production and employment in the sector

- Membership covers the entire supply chain from yarn spinning (eg Ulster Carpets and Barwon Spinners) and extrusion (eg Fibremakers), carpet manufacturing and distribution (eg Godfrey Hirst), and retail (eg Carpet Court)

Economic Significance of the Carpet Industry

- $823 million annual manufacturing turnover
- $85 million exports per year and growing
- 3,300 direct employees
- Regional economic significance – the carpet industry is a major employer in Geelong, Devonport, Castlemaine, Benalla, and Bendigo
- Largest spinner of wool in the world

Carpet Industry has Responded Positively to the Current TCF Plan

- More than $200 million invested since 1997

- Employment up 14%

- Significant productivity gains
  - turnover per employee up by 20%

- Annual export sales have increased by 31% to $85m

But Many Challenges Still To Be Confronted

- Small domestic market
- Scale/scope disadvantages compared to overseas competitors
- Loss of critical infrastructure
- Restricted access to overseas markets
- Increased import penetration as a result of further tariff reductions, Free Trade Agreements and the emergence of China as a major carpet manufacturer and exporter

Key Drivers for the Industry in the Future

- Product development and innovation

- Adaption of latest technology, to ensure
  - continuing productivity and efficiency improvements
  - world's best practice manufacturing
  - cost containment

- Integration into global supply chains for both efficient sourcing of materials and manufacturing inputs

- Development of new and expansion of existing export markets

Post 2005 TCF Plan

- The industry strongly supports the proposed new arrangements which were developed after a year-long review and extensive consultation with stakeholders

- The tariff pause from 2005-2010 plus an additional 5 years of SIP will help the carpet industry to become more globally competitive by encouraging new investment and innovation in products and processes

Post 2005 TCF Plan

- It is imperative that the transition from the current program to the new is seamless as possible

- The industry's performance will be severely impeded if investment and development plans are undermined as a result of either a delay in passing the enabling legislation or changes that erode SIP's effectiveness
  - firms with non-traditional financial years ("early balancers") are being affected now

Strategic Investment Program

- After 5 years of development and fine-tuning, SIP is working well

- SIP has had a major impact in assisting firms that account for:
  - up to 95% of employment in the carpet sector
  - 75% of value added and 66% of employment in the TCF sector as a whole

Strategic Investment Program

- Changes to SIP following the TCF Review are supported and now need to be implemented to allow industry to invest with confidence and certainty (noting modulation is a distinct possibility)
  - decisions about 2005/06 investment plans and strategies are being made now

- The industry supports the small business component of the new SIP as the most appropriate vehicle for assisting very small firms

Strategic Investment Program

- The industry believes that the $200,000 expenditure threshold is appropriate for a **strategic** investment program
  - ➢ cumulative aggregation from year to year means that small firms can and do participate in SIP
  - ➢ in addition, the new small business component of SIP will enable a “kick start” for those firms not yet ready to invest significantly in new technology and innovation

Conclusion

- A smooth transition to the post 2005 plan is important to avoid uncertainty and under-investment
- The industry acknowledges that a continuation of SIP is conditional upon acceptance of a tariff reduction following a further 5 years of tariff pause
- The $200,000 threshold is appropriate for a strategic investment program and should be maintained

Conclusion

- The industry believes that the proposed funding allocations are appropriate - if additional objectives are incorporated in the program they must be associated with additional funding

- In the interests of certainty, CIAL calls on all parties to pass the enabling legislation as soon as possible