

Standard Knitting Mills Pty Ltd

A.C.N. 000 305 242 / A.B.N. 49 000 305 242

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The Secretary
Senate Economics Legislation Committee
Room SG.64
Parliament House
CANBERRA ACT 2600

Dear Dr Bachelard

I refer to Senator Kim Carr's letter of 19 July 2004 concerning the Senate Economics Legislation Committee inquiry into the Textiles, Clothing and Footwear Strategic Investment Program Amendment (Post-2005) and the associated Customs Tariff Amendment Bill.

The Standard Universal Textile Group (SUTG) is amongst Australia's most successful knitting and dyeing companies. The company is a major manufacturer, operating a vertically integrated knitting and dyeing facility at Botany in Sydney. It has extensive research and manufacturing facilities and directly employs over 200 people. The company is a major customer for a variety of trades and professional service providers, contributing to the employment of a further estimated 500-600 people.

The company is not just in the business of manufacturing fabric - it is in the business of transforming simple inputs into interesting, technically advanced knitted and dyed fabrics and delivering them to take advantage of as late as possible commitments by manufacturers, retailers and consumers. This recognises that the company is dependent upon the investigation, analysis and development of solutions and possibilities related to the physical manifestation of fibres, fabrics and processes. The development and application of the Group's intellectual property is undertaken within the context of an integrated knitting mill and dyehouse. As the activities are intensely knowledge based the company is at the forefront of an advanced Australian technological industrial capability.

SUTG is a key supplier to apparel producers like Trackmaster and Supre who supply high quality, low cost knitted apparel to Australia's leading department, specialty and discount stores including Myers, Woolworths, K-Mart, Sussans, Just Jeans, Target, Fosseys, Katies, Best and Less and Rockmans.

Overall, SUTG is pleased that the government has decided to continue to support the principle of industry assistance for these industries. However we are concerned that in trying to address the plethora of issues raised by the Productivity Commission inquiry and the experiences of the 1998-2005 SIP scheme in conjunction with a commitment to reduce tariffs that a number of strategic inconsistencies have occurred. Moreover in trying to provide "certainty" the scheme has instead created "rigidity" that is unable to effectively deal with the changing circumstances and conditions that are fundamental to these industries.



2-6 clevedon street, botany nsw 2019 australia, p.o. box 283 botany nsw 1455
telephone: (02) 9316 5000 fax: (02) 9316 5749
email: admin@standarduniversal.com.au
www.standarduniversal.com.au

An example of how quickly critical parameters can change in this area has been provided by the Minister for Industry, Tourism and Resources who indicated in his second reading speech on 16 June 2004 that the government was proposing to continue SIP funding at about "the current level of expenditure..\$100 million a year." However, according to AusIndustry's TCF Strategic News, Winter 2004 distributed on 16 July 2004, expenditure is running at \$122 million per year. Combined with the governments expectation that with its proposed changes in the operation of the SIP that "more firms can be expected to use SIP" the proposals could therefore involve a significant reduction in the level of direct financial support for innovation and investment.

In regard to the specific issues which the Senate has asked the Committee to consider I would offer the following comments.

Export Market Access

We are concerned that the proposed legislation does little to facilitate improved export market access. There are no measures directly aimed at facilitating exports or reducing overseas barriers to our products. The government's policy of negotiating arrangements such as the recently concluded Australia-Thailand Free Trade Agreement and the proposed United States - Australia Free Trade Agreement appears to be the main instrument utilised to achieve improved export market access for our industry. These agreements have provided little benefit for the Australian textile industry due to the structure of the Thai apparel industry and its access to cheap fabric supplies from China and the maintenance of duties on the bulk of potential SUTG textile exports to America due to the rules of origin applied by the USA.

SUTG is very concerned that if Australia unilaterally commits to reducing its tariffs further in 2010 it will have given away any inducement it may have had to facilitate reasonable benefits from other areas such as AFTA or most importantly China, with whom the Australian Government is already examining the potential for another trade agreement

The Government has also suggested that tariffs do not make uncompetitive firms viable - whilst this is true a corollary is that removing tariffs can make viable firms uncompetitive. Removing apparel tariffs for example will have an impact upon the viability of Australian textile producers, such as SUTG. Relying upon the SIP scheme to increase investment and innovation in order to improve international competitiveness to such an extent that export market success can be effected despite the effects of the tariff cuts is highly speculative.

Employment

Employment is the direct consequence of the nature and levels of activity undertaken by firms such as SUTG. These in turn are dependent upon the supply chains that we depend upon, ie the clothing suppliers and retailers.

Given the reduction in industry employment cited by the government, the imminent 33% reduction in tariffs that will be effected at the end of this year and the apparent eagerness of the government to effect additional trade agreements, implement further tariff reductions in 2010 and encourage imports through the product diversification scheme it is difficult to sustain an optimistic view.

Our anecdotal experience suggests that significant additional imports could be expected in 2005 that will result in decreased demand for our products. This fall in activity levels will not be offset by the proposed SIP scheme. As such the prospects for employment in this industry are subdued.

As activity levels fall less efficient local suppliers will look to avoid realising their deferred liabilities (long service leave, retrenchment packages etc) by finding alternative buyers as their preferred means of leaving the industry. This will mean however that these operations will continue to operate - locking in capacity that is detrimental to the efficiency and longer-term viability of more efficient operations. The inability for firms to exit and close down excess capacity will further endanger employment in potentially viable operations.

Research & Development

A decade ago about 75% of SUTG's throughput was of a stable, predictable fabric. Such commodity type fabric could be produced in comparatively large runs due to the apparel industry's local market share.

Now only about 35% of SUTG's throughput is of such commodity type fabrics. The rest of the company's throughput has had to be developed through product development and innovation - identifying and servicing small market niches. This fragmentation of the market has therefore involved the loss of the scale economies of production associated with commodity type fabrics and imposed additional costs in order to develop new products. SUTG now develops over 100 new fabric structures every year. These structures are moreover speculative - the apparel producer may ultimately decide not to proceed with that construction.

This commitment to innovation and development is exemplified by the range of projects the company has undertaken in recent years to improve the company's technological basis and consequently its product capabilities:

- chemical and mechanical finishing of knitted fabrics for specialist performance properties
- development of 'just-in-time' finishes to impart unique handle characteristics for weft knitted fabric
- automated dyehouse systems improvements
- development of dyeing and dyestuffs and their application to novel fibre types and blends
- wet processing of delicate fabrics
- dyeing and finishing of fabrics produced from novel yarn structures
- computerized chemical delivery processes
- waste elimination in dyeing, finishing
- surface moisture retention characteristics of fabrics
- structural stability in materials handling processes
- physical and chemical influences on fabric geometry
- computerized chemical delivery processes
- waste elimination in dyeing, finishing and knitting.
- emission control for santex dryers
- chintzing and shreiner elastomerics
- emission ionisation and condensation
- dyehouse and stenter automation
- small run fabric finishing
- redesign of mill processes to incorporate electronic knitting machines
- chemical finishing
- mechanical finishing

In a shrinking market characterised by excess local capacity and minimal impediments to low cost technically advanced imports it is difficult to extract sufficient returns from our research and development efforts. The combination of the short time available to capitalise on any new development, the uncertainty as to the eligibility of any particular product development project for SIP support and the proposed extension of the SIP scheme to cover branding activities could result in a contraction in research and development activities.

Regional Development

SUTG is situated in metropolitan Sydney and only has indirect involvement with regional issues and therefore would make no specific comment on the impact of the legislation on this issue.

Conclusion

Overall SUTG supports the thrust of the Textiles, Clothing and Footwear Strategic Investment Program Amendment (post-2005 scheme) 2004 in providing funding to the industries beyond 2005. However further flexibility is required in the details of the scheme in order to ensure that priorities are clearly and consistently addressed and that the funding is used to good effect to promote a viable and value adding, technologically sophisticated, internationally oriented local manufacturing industry.

SUTG does not support the proposed changes to the Customs Tariff Amendment (Textile, Clothing and Footwear post-2005 Arrangements) Bill 2004.

Naturally, if you have any queries or would like me to clarify any of these issues I would be pleased to help.