

Dr David Robertson
Commissioner
Productivity Commission
PO Box 80 Belconnen ACT 2616

28 February 2003
File No: G071-14-04
Our Ref: DG

Dear Dr Robertson

Re: Submission to the Productivity Commission Inquiry - Post 2005 TCFL Assistance Arrangements

Please find attached Council's submission to the Inquiry, which is supported by the Geelong Manufacturing Council, the Geelong Textiles Network, the Geelong Chamber of Commerce, local TCFL firms, community groups and unions.

Geelong has a long and noted history in the TCFL industry and is one of Australia's leading centres for TCFL related investment, research and development and education and training. There are over sixty TCFL companies in Geelong. These firms directly employ 2,150 people with a further 2,838 employed in related industries, wages and salaries contribute in excess of \$70 million to the local economy each year. TCFL firms are a key component of Geelong's manufacturing base, comprising over 14.2% of the manufacturing workforce.

Council is aware of the Federal Government's WTO and APEC obligations, however it believes that if tariff levels are reduced and other assistance measures discontinued that firm closures and significant long-term job losses will result. The critical mass of TCFL companies required for the survival of the industry in Geelong will then be threatened.

In addition, many of Australia's key trading partners and potential trading partners are showing little tangible evidence that they are reducing tariffs and removing non-tariff barriers to the same extent or rate as Australia. Trade liberalisation is not a one sided proposition. Why should Australian TCFL workers bear the brunt of reduced industry protection while other countries use tariffs and non-tariff measures, some as extreme as specifying stitch counts, to protect their industries?

Social issues also need to be considered along with economic theory in the debate. A large percentage of TCFL workers are women from non-English speaking backgrounds. Research clearly shows that these people have difficulty gaining alternative employment, as their skills are not readily transferable to other industries. Governments at all levels have a responsibility to examine the social consequences of policy decisions.

It is for these main reasons that Council has adopted the following position:

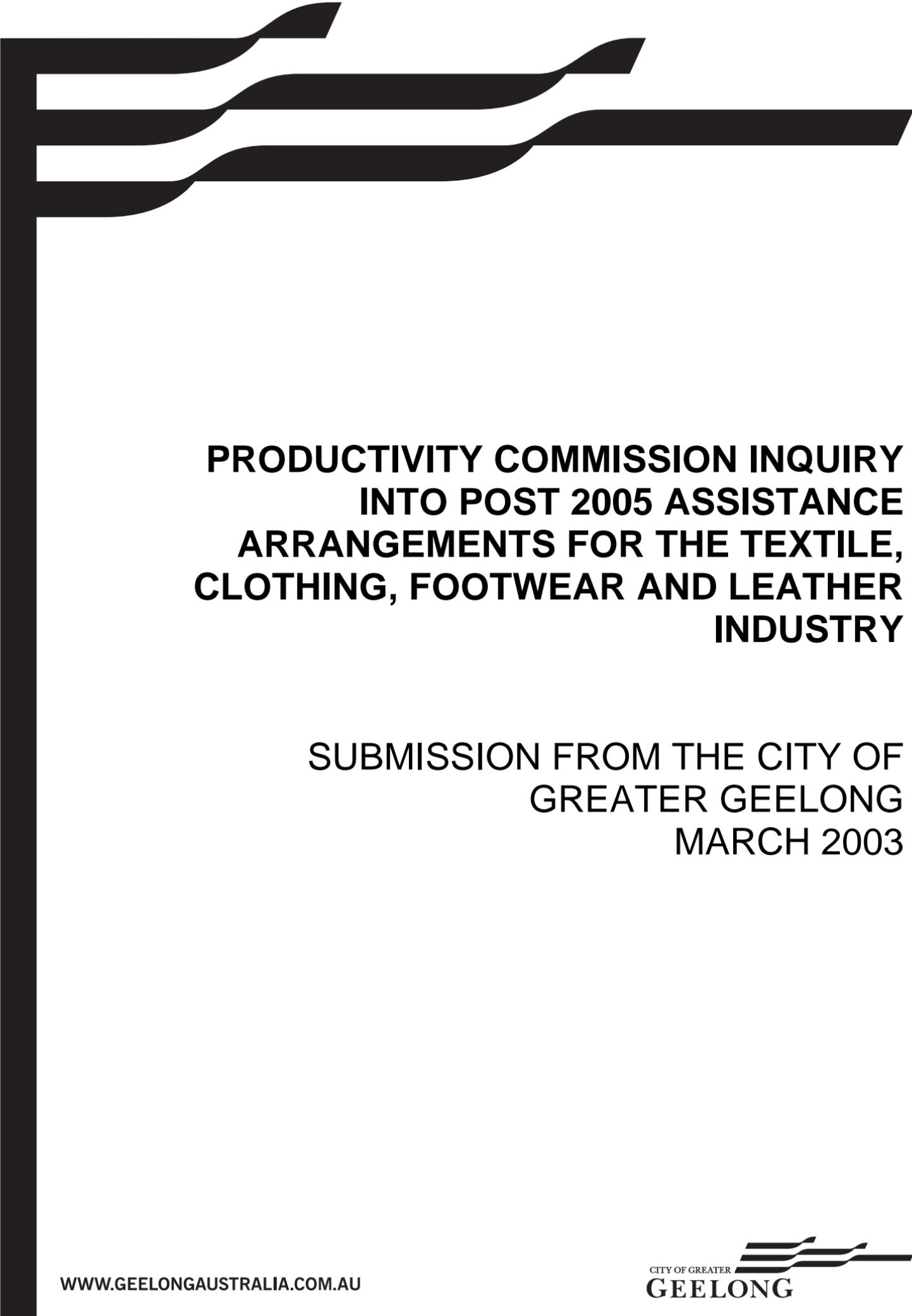
- Tariff levels in the TCFL industry must stay at their current levels until at least 2010 and any further reduction after this time be subject to a review process in 2008
- The Strategic Investment Program (SIP) and the Expanded Overseas Assembly Provision (EOAP) scheme must be continued at least at current levels;
- The SIP must be modified to allow greater access to it across the TCFL industry and the procedure for applying for funding simplified.

I acknowledge that tariff reductions have been legislated to occur after 1 January 2005, however the City will be actively campaigning to have this legislation repealed.

Yours sincerely

CR B ABLEY
MAYOR

Attach: Submission



**PRODUCTIVITY COMMISSION INQUIRY
INTO POST 2005 ASSISTANCE
ARRANGEMENTS FOR THE TEXTILE,
CLOTHING, FOOTWEAR AND LEATHER
INDUSTRY**

**SUBMISSION FROM THE CITY OF
GREATER GEELONG
MARCH 2003**

EXECUTIVE SUMMARY	2
INTRODUCTION	4
OUR POSITION	4
AUSTRALIA'S TCFL INDUSTRY IN THE WORLD ECONOMY	5
OBSTACLES TO THE GROWTH OF THE AUSTRALIAN TCFL INDUSTRY	6
TARIFF BARRIERS	6
NON-TARIFF BARRIERS	7
THE AUSTRALIAN TCFL MARKET	8
MANUFACTURING AND THE TCFL INDUSTRY IN VICTORIA	9
MANUFACTURING INDUSTRY IN GEELONG	9
TCFL INDUSTRY IN GEELONG	10
GEELONG LEADING THE WAY IN VALUE ADDING IN THE TCFL INDUSTRY	11
THE REGIONAL CONCENTRATION OF THE TCFL INDUSTRY	12
THE NEED FOR ADEQUATE INDUSTRY ASSISTANCE MEASURES	12
THE REGIONAL ECONOMY: EMPLOYMENT ISSUES	14
RE-EMPLOYMENT OF TCFL WORKERS	15
MAINTAINING EMPLOYMENT IN GEELONG'S MANUFACTURING INDUSTRY	16
TARIFF CUTS THREATEN THE CRITICAL MASS OF TCFL COMPANIES IN GEELONG	17
CONCLUSION	17
REFERENCES:	20
ATTACHMENTS:	21

EXECUTIVE SUMMARY

The City of Greater Geelong believes that:

- Tariff levels in the Textile, Clothing, Footwear and Leather (TCFL) industry must stay at their current levels until at least 2010 and any further reduction after this time be subject to a review process in 2008;
- The Strategic Investment Program (SIP) and the Expanded Overseas Assembly Provision (EOAP) scheme must be continued at least at current levels;
- The SIP must be modified to allow greater access to it across the TCFL industry and the procedure for applying for funding simplified.

Geelong is one of Australia's leading TCFL centres with over 60 firms operating in the region. The TCFL industry forms an important part of Geelong's manufacturing sector. It employs 2,150 people and accounts for 14.2% of Geelong's total manufacturing workforce. The industry's 2,150 employees contribute almost \$70 million in wages and salaries to the local economy. The City believes that:

- A reduction in tariff levels will threaten the critical mass of TCFL companies needed for the survival of the industry in Geelong;
- The strong concentration of TCFL companies in the region provides the local industry with significant growth opportunities that will be endangered by a reduction in tariff levels;
- Tariff and non-tariff barriers prevent Australian TCFL companies from accessing many important international markets. Australia will not benefit from reducing TCFL tariffs until its trading partners reduce tariffs and remove non-tariff barriers;
- Reducing TCFL levels will be another significant blow for industry in regional Australia.

The importance of the TCFL industry to the local economy extends beyond the 2,150 people it employs directly. Industry turnover is around \$440 million and a further 2,838 people are employed in related industries. Over the last eight years the TCFL industry has begun to successfully embrace changes to make it globally competitive. This has led to the industry broadening its focus from producing for domestic markets to actively pursuing export markets. The result has been a 112% increase in the total value of TCFL exports over the last decade. The gains that the industry has made will be jeopardised if tariff levels are reduced and assistance measures are not maintained, because the global economy is currently not a level playing field.

Geelong has undergone a period of sustained growth over the last five years. Unemployment has fallen from 12.9% in 1997 to 6.3% in June 2002 (ABS: Barwon Western Region, January 2003). The local TCFL industry has indicated that significant jobs will be lost if the proposed tariff cuts occur and assistance measures discontinued. Given that research (Weller & Webber 1999) demonstrates that workers retrenched from the TCFL industry face considerable difficulty re-entering the labour force, there is the potential for a significant increase in unemployment in Geelong if tariff levels are reduced.

In making its recommendation to the Federal Government the City of Greater Geelong implores the Commission to recognise:

- The importance of the TCFL industry to Geelong's economy and community;
- The significant growth potential the TCFL industry has;
- That further tariff cuts will decimate Geelong's TCFL industry and result in a large number of job losses;
- The importance of assistance measures to enable the industry to be competitive in the global economy;
- That the CSIRO, Deakin University, Gordon TAFE and the International Fibre Centre rely upon a strong and viable local TCFL industry as a basis for their industry specific research and development and training programs. If critical mass of the TCFL industry is threatened in Geelong so too may the activities of important institutions that play an important role in the Australian wide TCFL industry.
- The significant social and economic cost of TCFL job losses, particularly for the large number of women and people from non-English speaking backgrounds that work in the TCFL industry;
- The fact that many retrenched workers have difficulty gaining alternative employment and many will become part of the "hidden unemployed".

INTRODUCTION

The City of Greater Geelong has prepared this submission on behalf of the Geelong region. It is made in recognition of the importance of the TCFL industry to the region's economy and community. The submission is based on extensive consultation with local TCFL companies, the Geelong Manufacturing Council (GMC), the Geelong Textile Network (GTN), the Geelong Chamber of Commerce and other interested organisations. The GMC is an incorporated body made up of representatives from local manufacturing firms and education and research organisations. Its role is to support and assist the further development of Geelong's manufacturing industry. In carrying out this function the GMC has formed a number of working groups, including the GTN, to assist the development of manufacturing clusters that are of strategic importance to the Geelong region. The GTN includes representatives from local industry, education and research organisations and the City of Greater Geelong. Its mission is to position Geelong as a major integrated textile centre by pursuing sustainable initiatives that strengthen and develop the industry and lead to greater investment and opportunities for the future.

While the City of Greater Geelong makes this submission on behalf of the Geelong region it is also encouraging local TCFL companies and other organisations to make individual submissions.

OUR POSITION

The City of Greater Geelong believes that in order for the TCFL industry to survive in the Geelong region:

- Tariff levels in the Textile, Clothing, Footwear and Leather (TCFL) industry must stay at their current levels until at least 2010 and any further reduction after this time be subject to a review process in 2008.
- The Strategic Investment Program (SIP) and the Expanded Overseas Assembly Provision (EOAP) scheme must be continued at least at current levels;
- The SIP must be modified to allow greater access to it across the TCFL industry and the procedure for applying for funding simplified.

The City of Greater Geelong believes that these actions are justified because:

- Many of Australia's trading partners have not reduced tariff levels to the same extent that Australia has, including the US and Japan;
- The critical mass of TCFL companies in the Geelong region required to make and keep the industry viable will be threatened if the scheduled tariff cuts proceed;

- The TCFL industry is just beginning to embrace change in a way that will make it globally competitive;
- Further tariff cuts could destroy the local industry;

Geelong is one of Australia's leading TCFL centres. The local industry has an estimated turnover of \$440 million, employs over 2,150 people directly and a further 2,838 indirectly and accounts for 14.2% of Geelong's total manufacturing workforce. This is compared to the Victorian figure of 8.9% and the national figure of 7%. If tariff levels are reduced and assistance measures are not continued, Geelong's TCFL workforce will be decimated and negative effects will be felt throughout the entire local economy.

When announcing the TCFL review the Federal Government said that each policy option put forward by the Productivity Commission would be assessed to determine its impact on regional Australia. The TCFL sector contributes almost \$70 million in wages and salaries annually to Geelong's economy. Much of the workforce that contributes this expenditure will be lost if tariff levels are reduced because the critical mass of companies required to make the sector viable will disappear. The Productivity Commission must recognise that a reduction in both tariff levels and industry assistance measures will be another serious blow for industry in regional Australia.

The Federal Government argues that Australia is bound by international obligations to Asian Pacific Economic Co-operation (APEC) and the World Trade Organisation (WTO) to reduce tariff levels. However, this does not accord with the actions of its trading partners. For example, the United States and Japan have both failed to reduce tariff levels at the same rate or to the same level that Australia has and they both have significant systems of non-tariff barriers (MAIPP: 21-22, 2002). The Federal Government should not reduce TCFL industry tariff levels after the 1 January 2005, as many of the nation's major trading partners are showing little tangible evidence that they are reducing tariffs and removing non-tariff barriers to the same extent or rate as Australia.

AUSTRALIA'S TCFL INDUSTRY IN THE WORLD ECONOMY

Australia's TCFL industry has undergone significant change in the past twenty years. In the last decade alone employment in the national TCFL industry has fallen by approximately 30%. The combined pressure of global trade liberalisation, Australian Government policy and technological change has put the industry under great pressure to reform itself to become more globally competitive. This has led to the industry broadening its focus from producing for domestic markets to actively pursuing export markets. The result has been a 112% increase in the total value of TCFL exports over the last decade. The need to actively pursue

export markets has come as Australian Governments have, since the mid 1980s, progressively reduced tariff levels. In addition, they have eliminated all bounties and quotas. These reforms have taken place as part of Australia's obligations as a member of the WTO.

In 1995, the WTO created the Agreement on Textiles and Clothing (ATC) to govern international trade in those sectors. The objective of this agreement is to bring trade in the TCFL industry back under the control of the WTO. The ATC allows individual countries to determine which products will be integrated, or quotas phased out, during the four-stage 10 year phase-out period from 1 January 1995 to 1 January 2005 (MAIPP Caulfield, 2002). As a signatory to the WTO, the Australian Government is supportive of full implementation of the ATC agreement. However, Australia's trade competitors have not reduced tariffs to the same level that Australia has nor have they eliminated non-tariff barriers like production bounties and import quotas. This has left the Australian TCFL industry to operate in a global trading environment where market distortions are commonplace.

OBSTACLES TO THE GROWTH OF THE AUSTRALIAN TCFL INDUSTRY

The biggest obstacle to the growth of the Australian TCFL industry is its inability to gain access to overseas markets. An umbrella group representing TCFL firms in Australia, the TCFL Forum, commissioned a Market Access Industry Participation Program (MAIPP) report in July 2002. The report is based on the results of a national survey of TCFL companies. It highlights the tariff and non-tariff barriers that Australian TCFL firms face in international markets. Its conclusion is that:

The main issue for Australian TCFL products in relation to trade liberalisation in the next decade is ensuring that Australia's remaining trade barriers are only adjusted in acknowledgment of, and parallel with, international reductions of our trading partners' trade control measures (both tariff and non-tariff barriers) and entering into beneficial preferential trade agreements with markets larger than our own. (MAIPP: 37, 2002)

The Federal Government argues that Australia is bound by international obligations to APEC and the WTO to further reduce tariff levels in the TCFL industry. However, the MAIPP report highlights numerous examples of other countries around the world that have failed to reduce tariff levels at the same rate or to the same level that Australia has. For this reason TCFL tariff levels must not be reduced after 1 January 2005.

TARIFF BARRIERS

Tariff barriers discourage and in some instances prevent Australian TCFL companies from accessing many important international markets. The MAIPP report identifies China and India as potential markets for Australian textiles. However, both these countries have high tariffs

on a range of products including woollen yarn, woollen garments, nonwovens and carpets (MAIPP: 19, 2002).

The MAIPP report uses the Footwear industry to highlight the tariff barriers that Australian TCFL firms face. For example, footwear that has a protective metal toe-cap attracts a tariff of 60% when it enters Japan (outside Tariff Rate Quota (TRQ) allocation), 50% when entering Vietnam, 40% when entering Thailand and Papua New Guinea and 30% when entering Malaysia and South Africa (MAIPP: 38, 2002). A different work-boot that also has a protective metal toecap attracts a tariff of 37.5% when entering the US (MAIPP: 38, 2002). Australian companies have identified many other countries where export opportunities exist that are made inaccessible because of tariff barriers. While Australia has a close economic relationship with Indonesia trade between the two countries in the TCFL sector heavily favours Indonesia. The Indonesian market is described by the Australian TCFL industry as being impenetrable because of its vertical monopoly structure. South Africa is another country that has been identified as having strong export potential for Australian producers who can supply curtaining fabrics, apparel textiles and apparel. However, because South Africa is classed as a developing country by the WTO it is allowed to have considerably higher tariffs than its competitors to protect its domestic industry (MAIPP: 19, 2002).

While the City of Greater Geelong acknowledges that movements in currency levels can negate the impact of tariff assistance measures in some instances the Productivity Commission and the Commonwealth Government must recognise that tariff barriers prevent Australian TCFL companies from gaining access to many important international markets. The international marketplace is not a level playing field. Until Australia's trading partners reduce their own tariff levels Australia will gain nothing from import liberalisation.

NON-TARIFF BARRIERS

Australian companies are faced with significant non-tariff barriers when trying to gain access to international markets. These take the form of quotas, labelling requirements, voluntary export restrictions, subsidies and domestic content requirements. Despite TCFL products being amongst the most traded in the world, global trade in the industry is still restricted through the use of non-tariff barriers (DSRD: 6, 2000). Many countries have actually replaced tariff barriers with non-tariff barriers as the process of global trade liberalisation has taken place (MAIPP: 20, 2002).

The Australian TCFL industry has expressed a "collectively sceptic" view about the US Government's commitment to trade liberalisation in the TCFL sector (MAIPP: 21, 2002). They expressed this view because the US Government has chosen to delay the elimination of their

most trade distorting TCFL quotas until the last year of their ten year phase out period (MAIPP: 21, 2002). Research carried out by the Australian Wool Council has found that:

US manufacturers of textiles and clothing face a cliff at the end of year ten (31 December 2004) which may be difficult to overcome; raising the fear that the U.S. will again succumb to domestic political pressure and abandon its import liberalisation program. This will have adverse consequences for Australian wool growers and developing country exporters. The negativities will extend beyond the U.S. to the global market for textiles and clothing (MAIPP: 21, 2002).

Australian TCFL companies not only face barriers to international markets they must also cope with overseas countries using the Australian market to offload excess capacity left after their quota to other countries has been filled (MAIPP: 21, 2002). This has the effect of reducing the price that domestic producers receive because it allows an increase in the supply of low-cost goods (MAIPP: 21, 2002). Australian companies must also contend with the increased use of technical measures as a means to prevent Australian products from entering international markets. The US and the European Union (EU) have been identified as users of these methods (MAIPP: 23, 2002). Their use of technical measures such as “stitch counts” and stringent environmental regulations have been described as obvious tools, “to discourage imports in order to protect local industries” (MAIPP: 23, 2002).

THE AUSTRALIAN TCFL MARKET

Australia accounts for less than 2% of world production in the TCFL industry (DSRD: 5, 2000). Globalisation and the ongoing process of trade liberalisation have created a single globally supplied TCFL market in Australia. The total value of TCFL imports has increased from \$3.5 billion in 1990-91 to \$7.4 billion in 2000-01 (Victorian Government, 2002). The areas that have been impacted upon most by the increase in imports have been the clothing and footwear sectors. The value of imports accounts for 45 per cent of market share in the clothing industry and for 65 per cent in the footwear industry. The combined effect of the large growth in TCFL imports and the movement of some stages of production offshore have seen a decline in the level of local production and employment. The nature of manufacturing in the TCFL industry means that there is a heavy reliance on labour. Labour costs continue to be a significant operating expense for most firms. This has resulted in TCFL companies from developed economies implementing overseas assembly provision schemes. These schemes are designed to help move labour intensive activities offshore while at the same time retaining higher value-added activities in the domestic market. Geelong TCFL companies are in a good position to benefit from this process because of the strong concentration of research institutions in the region. The presence of CSIRO Textile and Fibre Technology, Deakin University, International Fibre Centre and the Gordon Institute of TAFE will allow Geelong

firms to retain value-added stages of production in Geelong if labour intensive stages are moved offshore.

MANUFACTURING AND THE TCFL INDUSTRY IN VICTORIA

The broader manufacturing industry is the most important sector of the Victorian economy accounting for 15.3% of total employment. The TCFL industry is a key part of this sector. Victoria has approximately 2,500 TCFL businesses, accounting for about 50% of Australia's TCFL industries. These businesses make a significant contribution to the local, State and National economies. ABS manufacturing industry data indicates that as at the 30 June 2001, the Victorian TCFL industry:

- contributed \$1 billion in wages and salaries annually;
- added \$4.5 billion per annum in industry turnover;
- contributed \$1.6 billion annually in value-adding activities;
- employed around 33,000 Victorians
- achieved approximately \$ 1billionb of exports per annum

Despite the significant reform process it has undergone in the last twenty years and the barriers to international markets that it faces, the TCFL industry has been and will continue to be of great economic significance to Victoria (Victorian Government, 2002). This significance is reflected in the strong concentration of TCFL companies in Victoria and the strong growth they have experienced over the last decade. Over the past 10 years, the TCFL industry in Victoria has become more globally competitive. A key indicator of this increase in competitiveness is the growth in exports over this period. Between 1990-91 to 2000-01 there was an average annual increase in the volume of exports of 9.3% in the Victorian TCFL industry (ABS, Cat 5422.0 & unpublished data) even though 30% of the workforce was retrenched. This is an indication of an industry keen to embrace change and become sustainable and competitive. However, it is the domestic market where the impact of tariff reductions will be felt. Increased competition from overseas manufacturers will see many local companies close their doors if they cannot compete or lay off staff in an attempt to become more competitive.

MANUFACTURING INDUSTRY IN GEELONG

Since the 1997 TCFL inquiry the structure of Geelong's economy has changed. Following the national trend the service sector has become the largest employer in the Geelong region. Despite the pressure of globalisation and a reduction in tariff levels Geelong retains its status as a region of manufacturing excellence with over 500 manufacturers and processors

employing over 15,000 people who contribute \$5.7 billion in turnover to the regional economy each year. Manufacturing is the most important industry sector in the Victorian and Geelong economies. Geelong's manufacturing base remains its greatest economic strength with significant new investment projects announced by Ford and Shell in the past year underlining their confidence in, and importance to, the regional economy. The concentration of manufacturing industries in Geelong provides a critical mass of local sources of supply, enables better service and support and promotes cooperation and joint venturing in product development, production and marketing. The commencement of the \$17.5 million Victorian Centre for Advanced Materials Manufacturing (VCAMM) project at Deakin University further strengthens the critical mass of manufacturing capability in Geelong.

Geelong's strong manufacturing base is complemented by its overall industry structure and transport infrastructure. The major sector types in Geelong's industrial structure are food processing, TCFL, automotive component manufacture, petroleum products and other chemicals, metals, timber processing and aerospace activities. Geelong's transport network complements this industrial structure. The Port of Geelong and Avalon Airport give local industry access to national and international export markets. Geelong is part of the National Standard Gauge Rail Network and is able to distribute goods from bulk shipments to smaller lots for distribution around Victoria and interstate. The upgraded Princes Freeway and rail line give Geelong industry efficient access to the Port of Melbourne and the Melbourne labour market. The region's transport infrastructure and overall industry structure has allowed the manufacturing industry in Geelong to excel. A significant proportion of Geelong's manufacturing industry is made up by the TCFL sector and will be negatively impacted upon by a reduction in tariff levels and if industry assistance measures are not continued.

TCFL INDUSTRY IN GEELONG

The TCFL industry has played an important role in the development of Geelong's economy. In its early years the region's economy developed on the back of a rich pastoral hinterland and the prosperity of the local wool trade. Geelong became the major trading port for the export of wool to Britain. At the same time related textiles industries flourished. Since these early years, the industry has undergone a major transformation. Today the local industry has found a niche in specialised markets supplying clothing, carpets, surf wear, fine wool processing, wool tops and wool products. The success of this transformation has seen Geelong come to be regarded as one of Australia's leading TCFL centres, with currently over 60 businesses operating in the region.

Geelong's history in TCFL has brought significant employment to the region. Currently the local TCFL sector employs over 2,150 people and accounts for 14.2% of Geelong's total

manufacturing workforce. This is in comparison to the Victorian figure of 8.9%. The strong employment concentration comes despite the TCFL industry in Geelong having undergone significant reform over the past five years resulting in 1,150 job losses. The reduction in employment reflects the efforts of Geelong TCFL companies in downsizing as part of the process of becoming more globally competitive. Geelong's largest TCFL company is Godfrey Hirst. It employs 700 people and is also the Geelong region's third largest employer. Other major TCFL employers in the region include: Huyck Australia Pty Ltd (186 employees), Brintons Carpets (170), Melba Industries (Australia) Pty Ltd (130) and Geelong Wool Combing Limited (120). Geelong's nine largest TCFL companies account for approximately 66% of total employment in the local industry.

Geelong's TCFL sector creates significant indirect spending and employment benefits for the local economy. TCFL industries in Geelong have an estimated turnover of \$440 million. The local industry's 2,150 employees contribute almost \$70 million in wages and salaries to the local economy each year. The Textile Industry is estimated to have an employment multiplier effect of 1.38, while the Clothing and Footwear Industries are estimated to have employment multipliers of 1.27 (Carter & Milanese, 1986)¹. This means that the TCFL industries support employment of a further 2,838 people in the Geelong region. If the proposed tariff cuts proceed the effects will be felt throughout the entire economy as these flow-on jobs are placed in jeopardy.

GEELONG LEADING THE WAY IN VALUE ADDING IN THE TCFL INDUSTRY

A recent report by the National Institute of Economic and Industry Research (NIEIR) found that Geelong must improve the integration of the research bodies in its region into its industrial structure (NIEIR: 90, 2002). Geelong has a number of important research institutions that are dedicated to finding innovative ways of adding value to TCFL products. There are over 250 people employed in research, education and training roles in Geelong. This figure is in addition to those directly and indirectly employed in the TCFL industry mentioned earlier. The Geelong TCFL industry has a strong relationship with local education and research institutions like the Gordon Institute of TAFE, Deakin University, CSIRO Textile and Fibre Technology and the International Fibre Centre. Local government and the GTN continue to foster this affiliation. These education and research institutions provide the local industry with staff training programs and state of the art research capabilities. They give industry the opportunity to form partnerships to facilitate the successful development of value adding opportunities. This type of development assists the industry to become more globally competitive. However, this type of opportunity will not be able to occur if the critical mass of

TCFL companies in Geelong is lost due to a reduction in tariff levels or industry assistance measures.

The region's education and research and development institutions have added to Geelong's status as an attractive place for TCFL investment. Currently Deakin University offers Geelong's TCFL industry flexible learning and research expertise. Deakin is the only university in Australia with a growing team of postgraduate students who are conducting applied research in fibres and textiles for industry. The establishment of the VCAMM has further strengthened this position.

THE REGIONAL CONCENTRATION OF THE TCFL INDUSTRY

The Federal Government, when announcing the review of TCFL tariffs, said that each policy option put forward by the Commission would be assessed to determine its impact on regional Australia. The Terms of Reference given to the Commission state that: "Particular attention should be given to the impact of policy options on those regions where TCFL accounts for a high level of regional industry concentration." The Productivity Commission and the Federal Government must not ignore the strong concentration of TCFL companies in the Geelong region's overall industry structure where they account for 14.2% of all manufacturing employment compared to 8.9% for the state of Victoria. Because of this strong concentration the impact of a large number of job losses due to a reduction in tariff levels and cessation of industry assistance measures will be serious. The City of Greater Geelong implores the Commission to consider this point when making its recommendations to the Federal Government.

THE NEED FOR ADEQUATE INDUSTRY ASSISTANCE MEASURES

In addition to tariff levels remaining at their current levels, funding for the SIP scheme should be increased and criteria modified to allow greater access to it across the TCFL industry and for smaller firms. The \$677.7 million SIP scheme was formulated under the *Textile, Clothing and Footwear Strategic Investment Program Act 1999*. The aim of the SIP scheme is to promote Australian TCFL firms' ability to be sustainable and internationally competitive in the freer trade environment post-2005. Australian firms are to be encouraged to increase their investment in new plant and equipment and to undertake more research and development (R&D) and product development. The SIP scheme aims to achieve this through making a series of grants available to TCFL companies. These grants consist of:

¹ The figure of 2838 was calculated by multiplying the respective employment multiplier effects (textiles 1.38 and clothing and footwear 1.27) by the number of employees in that sector of the industry.

Type 1 – grants in respect of new TCF plant/building expenditure

Type 2 – grants in respect of TCF research and development expenditure

Type 3 – grants in respect of TCF value-adding

Type 4 – special grants in respect of second-hand TCF plant expenditure

Type 5 – special grants in respect of TCF-dependent communities

Consultation with local TCFL companies has shown that many Geelong firms believe that the SIP needs to be broadened across the industry. For example, firms that are involved in early stage processing of cotton and wool are not eligible for SIP funding if they are not part of a vertically integrated process. Geelong has many companies in this situation that are missing out on government assistance to strategically invest in their future. Moreover, the process for applying for funding under the program was considered too complex. The result being that many firms did not make use of the scheme.

A recent report on the SIP scheme by the Department of Industry, Tourism and Resources found that the TCFL industry held mixed views about the effectiveness of the program. The major issues about the effectiveness of the SIP scheme that the TCFL industry raised related to:

- The eligibility provisions for plant and equipment under Type 1 grants, including the restriction of eligibility to new plant and equipment;
- The nature of innovation being supported under Type 2 grants and whether this reflected the type of innovation being undertaken within the TCFL industry.
- Administrative interpretations that were seen to be unreasonably narrow. For example, that the definition of innovation had been inappropriately developed to reflect novelty and risk characteristics that might be common in other sectors but which were not reflective of the TCFL sector (Department of Industry, Tourism and Resources: 5, 2002).

Local industry consultation undertaken by Council has identified that most local TCFL firms share these views.

The supply chains from raw material to finished products in the TCFL industry are long and complex with frequent changes in ownership, processes are often complex and equipment is very expensive. These factors and the difficulties in acquiring new markets for new products make rapid change and restructuring difficult. This is another compelling reason for continuation of assistance measures beyond 1 January 2005.

The Expanded Overseas Assembly Provision (EOAP) scheme provides import duty concessions to Australian companies assembling goods overseas using predominantly

Australian materials. This scheme should be continued long-term as it helps to retain higher value-added activities in the Australian market if labour intensive stages are moved off shore. Geelong has a strong concentration of research organisations and is therefore well placed to build upon value-added stages of production.

THE REGIONAL ECONOMY: EMPLOYMENT ISSUES

Geelong has a current unemployment rate of 6.3% (ABS: Barwon Western Region, January 2003). This low figure highlights the remarkable transition that the economy has undergone since 1997 when the unemployment rate was 12.9%. This transition will be endangered if tariff levels are reduced and assistance measures are not continued. The result will inevitably lead to an increase in unemployment in the Geelong region and reverse the employment gains made over the last five years. Since 1997 a number of TCFL companies in the Geelong region have closed. These include: Classweave Industries Pty Ltd, Burrowes Industries, Schofield Pty Ltd, Ryley Pty Ltd, Hello Fashions, Glenros, Nara Fashions, Bay City Clothing, Elite Fibre Australia, AGS Pty Ltd and Kinnears Rope Works. In addition Australian icons RipCurl and Quiksilver have relocated garment-manufacturing plants offshore. However, both maintain a design and administrative presence in the region.

A report released in December 2001 by the National Institute of Economic and Industry Research (NIEIR) entitled *State of the Regions* suggests that Geelong's (Barwon Region) unemployment rate for 2001 was 12.7%, significantly higher than the "official" figures. This research suggests that the official unemployment rate is corrupted because of:

- Shifts of long term unemployed into other forms of social security benefits, such as disability benefits; and
- Relaxation of the income test for social security benefits encouraging part time work which means that they are counted as employed in the ABS Labour Force Survey.

If unemployment is a lot higher than official figures suggest further job losses will be disastrous for Geelong.

Since the tariff freeze occurred in 1997 employment in Geelong's TCFL sector has decreased by 1,150 to 2,150. Given that 1,150 people in the industry have lost their jobs since 1997 and there was a tariff freeze at that time the City of Greater Geelong believes that a tariff cut in 2005 will consequently result in a large number of job losses. If, for example, 1,000 jobs were lost as a result of a tariff reduction and industry assistance measures being discontinued approximately \$32 million in wages and salaries would be lost from the local economy. This

does not include the loss of indirect jobs and the substantial flow-on impact to the rest of the local economy.

RE-EMPLOYMENT OF TCFL WORKERS

A large number of job losses in Geelong's TCFL industry will create a serious unemployment problem for the region. Workers who lose their job in the TCFL industry often have difficulty finding new employment because their skills are not readily transferable between industries. Research carried out by the University of Melbourne in 1999 showed that of 600 retrenched textile workers 53% were still jobless two years later (Weller & Webber 1999, p.107). Qualitative research undertaken locally in preparation of this submission supports the University of Melbourne's findings. One notable case study that typified the experience of many was a 53 year old long-serving textile worker telling her story of financial hardship, loss of self esteem and age discrimination as she unsuccessfully searched for work after the closure of Classweave Industries in 2001.

The Geelong region implores the Productivity Commission to take into account the social consequences of tariff reductions and the discontinuation of assistance measures on regional areas when making its recommendation to the Federal Government. Consideration should be given to the human element and not just economic theory. If jobs are lost retraining programs will be required for displaced workers. Such a program would be costly to the Federal Government to make available and to administer.

Many TCFL workers are from non-English speaking backgrounds and are females aged 40 years and over. This means that job losses resulting from tariff cuts and a cessation of assistance measures may not be fully reflected in increased unemployment rates for Geelong. Married women, depending on household income levels, are often not eligible for unemployment benefits and a great deal reluctantly "retire" after years of unsuccessful attempts to find new work. High levels of hidden unemployment can create significant social and economic problems as a deceptively low unemployment figure gives the impression that unemployment is not a major concern.

The *State of the Regions* report also highlighted that around 20% of income in the Barwon region is generated from Social Security Benefits. In fact the region was ranked 41 out of 60 regions in terms of the highest social security dependent regions. This demonstrates that employees and residents in the region are already significantly disadvantaged against their counterparts in other areas of the state. Reduction of current tariff levels and ending of assistance measures could seriously affect the level of employment in the TCFL sector in Geelong, further deteriorating the already lower salary levels, and increasing dependence

upon social security. Social issues need to be given equal priority to economic theory in the debate over whether or not to reduce TCFL industry protection.

Given that 20% of income in the Geelong region comes from social security benefits a substantial increase in the unemployment rate could have a serious economic and social impact on the community. Between 1996 and 2001, Geelong's labour force grew by an average of 1,563 persons per annum (ABS Census of Population and Housing, 1996 and 2001). If tariff levels are reduced and assistance measures are not continued the ability of the regional economy to create enough jobs to absorb both a large number of unemployed TCFL workers and the enlarged labour market resulting from population growth is limited.

Recent data indicates that total employment in manufacturing industries in Geelong in 2001 was about 13,046 (see table at Attachment 1). The manufacturing industry is vital to the region's capacity to provide sustainable employment opportunities and is often referred to as the "engine room" of the Geelong economy. TCFL jobs represent 14.2% of all manufacturing jobs in Geelong. If TCFL tariffs are reduced and assistance measures discontinued the strength of Geelong's manufacturing sector will be threatened, job opportunities reduced and a negative shock felt throughout the local economy for many years to come.

MAINTAINING EMPLOYMENT IN GEELONG'S MANUFACTURING INDUSTRY

Geelong is taking an active approach towards creating and maintaining employment in its manufacturing industries. It is a widely accepted view that the only way to retain large scale manufacturing activity is to maintain a competitive advantage based on the inherent advantages of high-income countries. These inherent advantages consist of:

- Workers with advanced skills
- An excellent capacity to create new knowledge, and
- An excellent capacity to transfer new knowledge into new products, better products or more efficient production processes.

Geelong is aware of these principles and is actively working towards their achievement. The Smart Geelong Network and the Local Learning and Employment Network (LLEN) have recently been established with the aim of harnessing the knowledge economy and skilling the workforce to accept new challenges and directions. The GTN has undertaken a number of initiatives aimed at improving Geelong's TCFL industry. These include creating a GTN website (www.geelongtextilenetwork.com), developing an *Opportunities in textiles in Geelong* brochure and preparing a strategic plan for the future of the local industry. Deakin University, the Gordon Institute of TAFE, the International Fibre Centre and CSIRO Textile and Fibre

Technology are all located in Geelong. The local TCFL industry is thus ideally placed to work in partnership with these institutions to capitalise on their extensive research capabilities. The presence of such organisations gives the industry the opportunity to equip its workforce with the latest technological advances to prosper in both local and international markets.

TARIFF CUTS THREATEN THE CRITICAL MASS OF TCFL COMPANIES IN GEELONG

The ability of the local TCFL industry to withstand a further round of tariff cuts is limited. The critical mass of companies required to make the sector viable will be threatened if the scheduled tariff cuts proceed. Clustering of firms allows information to be shared and increases the chance of establishing linkages with research institutions. The concentration of TCFL companies in Geelong provides a critical mass of local sources of supply, enables better service and support and promotes cooperation and joint venturing in product development, production and marketing. Geelong companies have questioned the ability of the local TCFL industry to be able to supply raw materials, skilled labour, training programs and technical support at present levels if tariffs are reduced. This could result in the decimation of the local industry. The aim of the Government's industry policy should be to facilitate the development of industry driven clusters in regional areas like Geelong where competitive advantages in the manufacturing sector already exist. The need to add value to TCFL products is widely acknowledged. However, the ability of Geelong TCFL companies to do this successfully will be compromised if the size of the local TCFL sector is reduced because of tariff cuts.

CONCLUSION

The TCFL industry is extremely important to the economy and community of Geelong. If tariff levels are reduced and assistance measures withdrawn it faces devastation. Thus, the City of Greater Geelong would like to reaffirm its position:

- Tariff levels in the TCFL industry must stay at their current levels until at least 2010 and any further reduction after this time be subject to a review process in 2008.
- The SIP and the EOAP scheme must be continued at least at current levels;
- The SIP must be modified to allow greater access to it across the TCFL industry and the procedure for applying for funding simplified.

Geelong's status as one of Australia's leading TCFL centres and the strength of its local manufacturing industry will be jeopardised if tariff levels are reduced or assistance measures withdrawn. The TCFL industry in Geelong employs 2,150 people directly and a further 2,838

indirectly and accounts for 14.2% of its total manufacturing workforce. A tariff reduction or a withdrawal of assistance measures will threaten almost \$70 million in wages and salaries that are contributed to the local economy by the industry's 2,150 employees.

The City believes that:

- A reduction in tariff levels will endanger the critical mass of TCFL companies needed for the survival of the industry and supporting institutions in Geelong;
- The strong concentration of TCFL companies in the region provides the industry with significant opportunities to pursue partnerships with local research institutions to carry out R&D and to explore value-adding opportunities. This opportunity will be endangered by a reduction in tariff levels;
- Tariff and non-tariff barriers prevent Australian TCFL companies from accessing many important international markets. Australia will not benefit from reducing TCFL tariffs until its trading partners reduce tariffs and remove non-tariff barriers;
- The Federal Government should continue to support TCFL companies to restructure to build a sustainable and globally competitive TCFL industry in Australia;
- Reducing TCFL levels and withdrawing industry assistance measures will be another significant blow for industry in regional Australia.

The TCFL industry's importance to the local economy extends beyond the 2,150 people it employs directly. Industry turnover is approximately \$440 million and 2,838 people are employed in downstream industries. The gains that the TCFL industry has made over the last decade will be jeopardised if tariff levels are reduced and industry assistance measures are not continued. These include broadening its focus from producing for domestic markets to actively pursuing export markets with the result being a 112% increase in the total value of TCFL exports over the last decade.

Finally, in making its recommendation to the Federal Government the City of Greater Geelong implores the Commission to recognise:

- The importance of the TCFL industry to Geelong's economy and community;
- The significant growth potential it has;
- That further tariff cuts will decimate Geelong's TCFL industry and result in a large number of job losses;
- The importance of assistance measures to enable the industry to be competitive in the global economy;
- That the CSIRO, Deakin University, Gordon Institute of TAFE and the International Fibre Centre rely upon a strong and viable local TCFL industry as a basis for their industry specific research and development and training programs. If critical mass of the TCFL industry is

threatened in Geelong so to may the activities of important institutions that play an important role in the Australian wide TCFL industry.

- Significant social and economic cost of TCFL job losses, particularly for the large number of women and people from non-English speaking backgrounds that work in the TCFL industry;
- The fact that many retrenched workers have difficulty gaining alternative employment and many will become part of the “hidden unemployed”.

REFERENCES:

Australian Bureau of Statistics, Unemployment Statistics, Barwon Western Region, January 2003.

Australian Bureau of Statistics, Census of Population and Housing, 1996 & 2001.

Carter, R., & Milanese, A., *Import Dependence in a Branch Plant Economy: Input Output Modelling for the Geelong Region*, Paper presented to the 11th Annual Conference of the Regional Science Association of Australia and New Zealand, Sydney, 1986.

Caulfield, K., & Cameron, A., *Market Access Industry Participation Program Report*, 2002.

Department of Industry, Tourism and Resources, *Review of the Textile, Clothing and Footwear Strategic Investment Program Scheme*, 2002.

National Institute of Economic and Industry Research (NIEIR), *State of the Regions Report*, 2001.

National Institute of Economic and Industry Research (NIEIR), *Geelong's Economy in the Context of the Emerging Knowledge Economy; Strengths & Weaknesses*, Geelong Manufacturing Council, 2002.

Victorian Government, *Victorian Textile, Clothing, Footwear And Leather Manufacturing Industry: An Industry Plan from the Victorian Government June 2002*, 2002.

Victorian Government, Department of State and Regional Development, *A Report on Victoria's Textile, Clothing, Footwear and Leather Industries*, 2000.

TCFL Forum, *TCFL Forum Strategic Plan: Global and Growing Blueprint for a Positive Future*, 2002.

Weller, S., & Webber, M., *Re-Employment after Retrenchment: Evidence from the TCF Industry Study*, The University of Melbourne, Melbourne Institute of applied Economic and Social Research 1999.

ATTACHMENTS:**Attachment 1: Industry sector of the Geelong workforce in the Geelong region, 2001 Census**

Local Government Area	Greater Geelong (G)	Surf Coast (S)	Golden Plains (S)	Queenscliffe (B)	Total Geelong Region	Geelong Region % 2001	Geelong Region % 1996	Victoria % 2001
Agriculture, Forestry & Fishing	1,143	506	762	15	2,426	2.6	1.4	3.5
Mining	74	6	14	0	94	0.1	0.2	0.2
Manufacturing	13,046	908	1,096	43	15,093	16.3	19.5	15.3
Manufacturing Sub Sectors -								
Food and Beverages	1,060	64	213	6	1,343	8.9	9.5	14.4
Textiles, Clothing, Footwear & Leather	1,904	141	102	3	2,150	14.2	17.6	8.9
Wood & Paper Products	603	47	38	3	691	4.6	3.4	5.5
Printing, Publishing & Recording	785	98	42	12	937	6.2	5.7	9.4
Petroleum & Chemicals	1,123	63	70	0	1,256	8.3	8.7	11.0
Non Metallic Mineral Products	596	51	76	0	723	4.8	5.4	3.3
Metal Products	2,149	139	149	3	2,440	16.2	16.7	9.9
Machinery and Equipment	3,548	157	292	12	4,009	26.6	27.6	23.3
Other Manufacturing	527	85	50	0	662	4.4	3.1	6.1
Manufacturing, undefined	751	63	64	4	882	5.8	2.3	8.0
Electricity, Gas & Water Supply	582	84	37	7	710	0.8	0.8	0.6
Construction	5,871	854	462	78	7,265	7.8	6.6	6.6
Wholesale Trade	3,425	377	267	16	4,085	4.4	4.5	5.6
Retail Trade	13,159	1,230	889	113	15,391	16.6	16.2	14.8
Accommodation, Cafes & Restaurants	3,547	748	155	155	4,605	5.0	4.4	4.3
Transport & Storage Services	2,769	215	251	43	3,278	3.5	3.3	3.8
Communication Services	1,137	91	107	12	1,347	1.5	1.6	2.0
Finance and Insurance	1,929	158	97	19	2,203	2.4	2.8	3.0
Property and Business Services	6,818	800	367	120	8,105	8.7	8.0	11.4
Government, Administration & Defence	2,261	234	170	69	2,734	2.9	3.7	3.0
Education	6,148	893	422	124	7,587	8.2	8.0	7.1
Health	8,493	914	654	152	10,213	11.0	10.1	9.7
Cultural & Recreational Services	1,726	226	101	31	2,084	2.2	1.6	2.6
Personal & Other Services	2,937	331	175	65	3,508	3.8	3.8	3.3
Not Classifiable	1,680	188	156	25	2,049	2.2	3.5	2.4
Economic Units & Not stated								
Total Workforce	76,745	8,763	6,182	1,087	92,777	100.0	100.0	100.0

Source: Australian Bureau of Statistics 2001 Census of Population and Housing. Refers to persons aged 15 years and over. (C) City, (S) Shire, (B) Borough.