



Friday 7TH march 2003

TCF INQUIRY
PRODUCTIVITY COMMISSION

DEAR SIRs,
PLEASE FIND ATTACHED A SUBMISSION TO THE TCF INQUIRY.
I WOULD ASK THAT PAGE 7 REMAIN CONFIDENTIAL

REGARDS

KEVIN GRIFFIN
MANAGING DIRECTOR

S&R Fashions Pty Ltd
A.B.N. 67 092 609 866
A.C.N. 092 609 866

120 Roseneath Street
Clifton Hill 3068 Australia
PO Box 467 Clifton Hill 3068

Telephone: (613) 9486 3166
Facsimile: (613) 9486 3277
Email: sr@srfashions.com.au

S & R Fashions P.L Submission to Productivity Commission

re Post 2005 TCF Assistance policy

Introduction:

S& R Fashions are a leading supplier of fast fashion to the Australian womens wear market. They focus on designing and developing product for the key womens fashion chains in Australia, and use their sourcing expertise to source this product both locally and from overseas suppliers. S&R Fashion have built their fast turnaround business on local sourcing and currently provide employment for approx. 350 full-time equivalent garment workers in Australia. With the inroads made into local production through the reduction of tariffs over the last 5 years, S&R Fashion would indirectly employ a similar number of workers through their offshore suppliers.

S&R Fashion are committed to both local design and production of garments in Australia, and believe that a carefully prepared Government strategy post 2005 can achieve the dual aims of maintaining a competitive local Australian garment industry.

General Position:

S&R Fashion support the position formulated across the industry by the TFIA and make the following observations specific to the fashion industry in support of that Industry position.

*The fashion industry is the major employer of people in the TCF industries being both labour intensive and also being the upstream industry upon which much of the textile industry depends for markets

*Firms like S&R Fashion represent the business model most prevalent in the womens and childrens end of the fashion industry. In-house design with commission make up is traditional structure for these sectors around the world.

*We strongly support the TFIA proposal that tariff reductions will only work to the benefit of the industry and in turn the consumer if they are complimented by a well thought-out positive assistance proposal; building on the successes of the current SIP framework

*Experience of the fashion industry is that the level of encouragement achieved under SIP regulations is not evenly spread across the industries and in fact those who employ the most, and add the most value added and are under the most pressure from reducing tariffs, seem to receive the least. This is clear from the general macro numbers whether on a per capita basis, assistance per value add basis ,or just assistance per sales dollar basis. It is also clear at the individual firm level when firms such as ourselves continue to be market leaders through innovations essential for commercial success but not recognised under the definitions built into the current SIP program. The objectives are right but the administration is hamstrung by the legislation to deliver the desired outcome for visually based clothing industries.

*This fundamental flaw in administration rules flows into other areas as administration tries to restrict the definition of innovation away from its true fashion relevance and application. An example in point is an apparent recent movement in position from one of the rare fashion examples given in the original Innovation guidelines to its subsequent removal after 18 months of promotion and emphasis. The rare reference to fashion activities noted

"If the activity involves interpretation of foreign designs into the domestic market, you will need to demonstrate that innovation has occurred as an integral part of the process.

For example, developing the best possible garment in terms of quality and design within a specific price range, by interpreting exclusive foreign designs and fabrics into equivalent volume products to meet Australian market requirements **would be eligible**, if the process involved genuine innovative activities such as the re-interpretation of the design, fabric upgrading specification, pre-production trials and proving-up patterns etc. However, a mere copying of the foreign design or fabric would not be eligible."

**THIS DEFINITION OF INNOVATION HAS NOW BEEN REMOVED, WHY?
HAVE THE GOAL POSTS SHIFTED?**

Despite various forums run by AusIndustry and regular Newsletters and website statements FAQ's etc, to our knowledge AusIndustry has never specifically noted the withdrawal of this example nor any reasons why it no longer applies.

S&R Fashions believes that if there is no adequate way to accurately address the innovations commercially relevant to the longterm success of the local fashion/garment industry, then at the very minimum the value added dimension of the SIP program (ie Type 3) should be delinked from the current narrow definitions and allow this dimension to defacto represent the important role that key employing sectors like garments and fashion play in the industry

Detail Position

Following the format set down in the Commissions Issues and Questions Paper we attach our responses to the detailed questions raised



S&R Fashions P.L. Responses to:

“Productivity Commission: Issues and questions”

Recent performance and future prospects

How have the TCF industries and individual firms been performing in terms, for example, of profitability, return on investment, market share, exports, improvements in productivity and product quality?

S & R Fashions PL have been in business for 15 years. Over the last 5 years the business has doubled in size due largely to structuring of the business on an account basis and the focus on being the best in fast fashion womens design, and speed to market. Local performance is a function of remaining competitive with similar but smaller local fashion houses and direct retailer imports. With the demise of the I.C.S. scheme any focus on exports in the business has had little relevance.

What has been the contribution to performance outcomes of industry restructuring, investment in plant and equipment and R&D, emphasis on skilling, training and management performance and supply chain management?

Performance outcomes are similarly product-based with product innovation and design being the key. (“only as good as your last range”) but time and investment in scale and infrastructure (both in design skills and maintaining established quality makers) also contributes to the overall performance outcome.

What adjustment pressures are acting on the TCF sector (eg. technological change, increased competition from low wage or more efficient production centres overseas, changing patterns of consumer demand)?

The major pressures acting on fast fashion industry are:

- **Lower cost import sourcing**
- **Role of direct retailer import, especially in housebrands**
- **Discouragement of traditional outworker model for fashion suppliers**
- **Lack of promised level of financial support for this sector from Federal Government S.I.P. scheme as tariffs lowered**

What difficulties have occurred in adjustment to changes in the sector’s operating environment in recent years? What factors have facilitated or impeded adjustment to increased international market competition? What are the characteristics of those firms that have either succeeded or failed (eg. are brand recognition, marketing, design and/or product differentiation or some minimum scale important)?

Main impediment is lack of recognition of the fashion industry and its unique format when drafting Government policies designed to assist clothing. The policies have promised much but to date have had a very low impact level in their administration as it relates to the fashion industry.

Which industries in the TCF sector in Australia are most competitive (eg. in which specific products or production processes) and why? How might this change in the future? What capacity do TCF firms have to improve their productivity/cost base towards international best practice?

Fashion industry is one of the most naturally competitive industries by virtue of the need for proximity to fast changing market. Despite this there has been an (avoidable) exodus from this sector with full impact of reducing duties and lower than expected impact from S.I.P. administration to date.

What external forces will influence future performance and prospects (eg. exchange rates, microeconomic reform, trade barriers and overseas assistance measures)?

External forces ebb and flow, and the rate of direct retailer imports can move likewise on the prevailing corporate retailer philosophy. Recent exchange rate movements are more likely to encourage direct retailer

involvement in imports than the reverse. However world supply availability and pricing may change as US and Europe open their markets to China sourcing post 2005

Would changes in domestic policy settings (eg. To taxation, workers' compensation arrangements, etc) help the TCF sector to increase its competitiveness?

Improved on-costs would assist but the key competitive factor is the labour cost distortion between local and import cost structures (both materials and direct labour)

Impact of current assistance arrangements

How effective and efficient are current assistance measures in promoting desirable structural change and establishing an internationally competitive TCF sector? Which measures are the most effective?

The combined positive encouragement of the S.I.P. program in conjunction with increased import pressure from lower tariffs is the correct way to achieve balanced adjustment in the TCF industry. However, the exclusion of “visual innovation” from such encouragement works to exclude fashion from the positives of this approach whilst incurring all the frontline negative pressures of easier import access.

Have the impacts of assistance measures varied significantly across different industries in the TCF sector? What aspects of the current package have most helped desirable change? Have there been any unintended or undesirable side effects?

Impact of assistance imbalanced against fashion /visual industries and favoured the more boring technical corners of TCF sector. Needs to be a rebalancing to make this desirable approach work better.

How effective has the SIP been in encouraging additional or earlier investment in process or product development and new capital equipment? Are there any deficiencies in the SIP criteria or their application?

Fashion industry is about innovative product and process development. Investment is a secondary consideration to good product development and design skill. Innovative product development needs to recognise the visual nature of fashion or, if this is not possible, enable a “defecto’ measure of such by payment according to the participants value added role in industry.

Are there any particular problems or anomalies in other assistance arrangements (eg. the EOAP and policy by-laws)? How might they be avoided/alleviated?

As tariffs compact ,the end product assistance reduces faster than the imported material components, further discouraging Australian garment production

To what extent are TCF firms taking advantage of the current tariff pause to prepare for the legislated tariff reductions in 2005?

As a single example, S&R Fashions PL are investing in people, structure and service to ensure a stronger hold upon their Australian customer base. At the same time, the SIP programs promises for fashion garment production are restricted under current emphasis on technical rather than aesthetic/visual developments that determine fashion success, and as such imports are being encouraged more by the reducing duties in the absence of adequate positive assistance for continued local sourcing of fashion garments.

The only other area of investment possible but inappropriate for the business model currently right for this company, is development of own brand, possibly in conflict with current customer base.

How significant are the costs imposed on consumers, taxpayers and other industries by the assistance package for the TCF sector? To what extent have these imposts hindered the performance of local downstream industries such as furniture manufacturing?

Australian clothing is extremely low cost, and fashion competitive by world standards, and is associated with a vibrant fashion supply market. The assistance package works to the advantage of consumers in both costs and fashionability of this supply base.

Workplace issues

1. *What issues and concerns are raised by the use of outworkers (eg. an inadequate information base, exploitation, working conditions)?*
2. *What impact have legislative (eg. the Ethical Clothing Trades Act in NSW) and voluntary (eg. the Homeworkers Code of Practice) initiatives had on outworkers and TCF firms? Are other approaches required?*

Post 2005 assistance arrangements

What rationale, if any, is there for maintaining tariff assistance to the TCF sector indefinitely? If not, over what time frame would it be reasonable to remove the sector's preferential tariff treatment? What are the key considerations in determining that time path?

Gradual adjustment process over 10 yearly steps through to 2015 with clear statement of Government encouragement for retention and adjustment through broad based SIP scheme reflecting value added as well as investment and innovation across all sectors, will enable the adjustment process to be successfully completed

What, if any, of the other components of the sector's current assistance package should be retained? What modifications to programs such as SIP and the EOAP should be made if they were extended? What role would they play in facilitating structural change in the TCF sector?

SIP should be retained

SIP should be modified by delinking type 3 (value added) to reflect the major value add activities undertaken by areas like fashion that are not adequately reflected in the restrictive definitions of the non-visual requirement for SIP product development.

Would further reductions in assistance post 2005 be likely to cause significant economic or social disruption? If so, how could the sector be best helped (eg. special adjustment or regional assistance)? Are there any case studies of previous adjustment experience (both positive and negative) which the Commission should consider?

Without adequate post 2005 positive assistance package ,the confidence and incentive to commit to local activity will be removed and the one-side tariff reduction only approach will see a major acceleration of the exit from local to imported garments.