

PRODUCTIVITY COMMISSION

**POST 2005
TEXTILE, CLOTHING AND
FOOTWEAR
ASSISTANCE ARRANGEMENTS**

**SUBMISSION OF
VICTORIAN TRADES HALL COUNCIL
7 MARCH 2003**

1. The Victorian Trades Hall Council (VTHC) makes this submission to the above inquiry. The VTHC represents over 50 affiliated union organisations (including some divisions of unions which have maintained separate affiliation), representing approximately 400,000 Victorian union members.
2. The VTHC makes this submission in support of the more comprehensive submission to the Commission of VTHC affiliate, the Textile Clothing and Footwear Union of Australia (TCFUA).
3. In August 2000, the Victorian Government established the Manufacturing Industry Consultative Council (MICC). The purpose of the MICC is to provide Government with an industry perspective on the strategies required to create a stronger manufacturing industry. A number of Victorian unions representing members in the manufacturing sector are individually represented on the MICC, together with the Secretary of the VTHC.
4. In its October 2001 Report to Government, 'Victoria's New Manufacturing Future', the MICC found:

'Victorian manufacturing industry is important to economic growth, employment and living standards in the State. During the second half of the 1990's it provided:-

- *Nearly 40% of direct and indirect employment;*
- *27% of total gross industry output;*
- *Over 50 % of the investment made by all Victorian businesses in research and Development;*
- *Over 25% of production in 41 of Victoria's 78 Local Government Areas; and*
- *Over 60% of total Victorian exports.'*

5. Further the MICC Report found:
 - *'...while exports accounted for less than 20% of the growth in real manufacturing turnover in Victoria in the 1980's, exports accounted for almost two thirds of the growth in Victorian manufacturing during the 1990's'.*

- *'The import share of domestic demand rose sharply across a range of manufacturing sub sectors during the 1990's. In aggregate the import penetration ratio rose from 29.6% (1990) to almost 45% (2000). This loss of domestic market share, the slow growth in productivity, low levels of profitability and declining investment in R&D (during the second half of the 1990's) left many parts of Victorian manufacturing stagnating or in decline despite the strong export performance in other parts of the industry.'*
 - *'Less than 12% of the State's manufacturers are exporting and almost 75% of the export income comes from around 100 of the states manufacturing firms.'*
 - *More than 60% of Victoria's manufacturing exporters are deriving less than 10% of their income from exports.'*
6. Significantly, the textile, clothing footwear and leather industry within Victoria accounts for approximately 50% of Australia's TCFL industries.
7. The 'Victorian Textile, Clothing Footwear And Leather Manufacturing Industry – An Industry Plan from the Victorian Government June 2002', details that:
- 'Victoria has around 2,500 TCFL businesses, accounting for approximately 50% of Australia's TCFL industries. These businesses make a significant contribution to the local economy. ABS manufacturing industry data indicates that as at 30 June 2001, TCFL industries:*
- *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 directly in the industry; and*
 - *Achieved approximately \$1 billion of exports per annum.*
- The TCFL industries also play an important role in the regional and rural economy of Victoria with around **15 per cent** of TCFL employment occurring in non-metropolitan areas. (Bolding added)*

Victoria has a high proportion of Australia's textile fibre, yarn and woven fabric manufacturing firms. Those areas where Victoria accounts for large amounts of Australia's TCFL production activities include:

- *80% of carpet production;*

(It should also be noted that Australia has the 9th largest carpet industry in the world, with two Victorian manufacturers included in the world's top 30 carpet producing companies. Victoria exports of carpet were valued at \$63 million in 2000-01.)

- *81% of hosiery and wool textiles;*
- *35% of casual clothing and accessories;*
- *27% of industrial and household textiles; and*
- *24% of wool scouring.'*

8. Further the 'Victorian Textile, Clothing Footwear And Leather Manufacturing Industry – An Industry Plan from the Victorian Government June 2002', details that:

- The largest 20 (TCFL) firms account for around 30 per cent of all TCFL employment in the State;
- Turnover in the TCFL manufacturing sector contracted by nearly seven per cent during the ten year period from 1990-91 (\$4,755.7m) to 1999-2000 (\$4,441.9m).
- The total value of TCFL imports into Australia increased from \$3.5 billion in 1990/91 to \$7.4 billion in 2000/01

9. The above employment estimates for workers within the Victorian TCFL industries do not take into account the 'hidden' tens of thousands of home – based outworkers. The Independent Report of the Victorian Industrial Relations Taskforce, presented to the Victorian Government in August 2000, concluded that:

'The number of outworkers, particularly in the textile, clothing and footwear industries, has risen with the restructuring of the manufacturing industry over the past ten to fifteen years. Many displaced factory workers now find

themselves engaged as outworkers performing the same work in their own homes, with estimates of the number of outworkers in the Victorian clothing industry ranging between 20,000 and 140,000 people. These workers are paid piece-rates rather than the award rates of pay that they would receive as a factory-based employee, which has resulted in low wages, excessive hours, non-compliance with award conditions, and job and income precariousness for outworkers.

Most outwork is undertaken by migrant women aged between twenty-five and thirty-five years, who have young children at home. Many have poor English language skills and find it difficult to obtain other forms of work. Family members often assist in either a full-time or part-time capacity, and there is evidence that some children are involved in outwork to an unreasonable extent. Home-based outwork is characterised by complex contractual arrangements which mean that it is often difficult to define precisely who the employer of the outworker is, and who is responsible for paying the outworker appropriate recompense.

10. The VTHC has read the documents on the Commissions' website regarding this inquiry. In particular the VTHC makes reference to 'Circular 2' and the 'Significant trends in the Australian TCF sector' detailed in "Attachment B" to this circular.

Of interest are the following points:

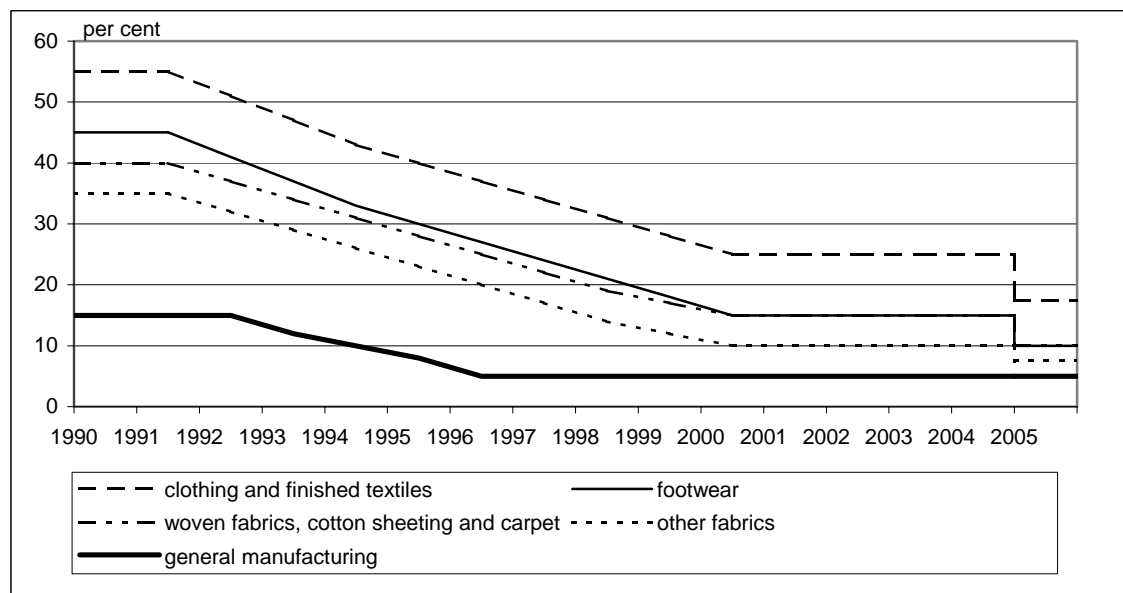
'Significant trends in the Australian TCF sector over the past decade have included:

- *clothing and footwear expenditure in Australia dropped from 4.9 per cent of total household goods and services expenditure in 1991-92 to 3.9 per cent of total expenditure in 2001-02;*
- *total TCF manufacturing value added fell by 34 per cent in real terms over the ten years to 2001-02;*
- *import shares of the domestic TCF market increased over the decade to 2000-01: in clothing from 19 per cent to 45 per cent, in footwear from 36 per cent to 65 per cent, in intermediate textiles from 51 per cent to 62 per cent, in finished textiles from 18 per cent to 32 per cent and in leather from 36 percent to 65 per cent;*

- *TCF exports (excluding wool scouring, leather tanning and dressing) doubled in real terms over the decade to 2001-02 and the share of sales accounted for by exports has risen from 4 per cent to around 10 per cent over the same period;*
- *employment by TCF manufacturing firms, not including outworkers, fell by more than 40 per cent over the ten years to June 2001 (to around 58 000).'*

11. VTHC also makes reference to the graph in 'Attachment C' to Commission Circular 2, which details the reduction in TCF industry tariff rates from 1990. That graph is replicated below:

TCF and manufacturing sector tariff rates, 1990 to 2005



12. The Victorian Government together with TCFL industry stakeholders has developed a strategy to help achieve longer-term growth and sustainability within the sector. This strategy is detailed in the 'Victorian Textile, Clothing Footwear And Leather Manufacturing Industry – An Industry Plan from the Victorian Government June 2002'. The strategy has identified the five key elements for growth:

- adding value through innovation;
- improving the effectiveness of the workforce;

- increasing the global orientation of the industry;
 - collaboration; and
 - creating a positive industry image.
13. The VTHC commends this report and associated strategy to the Commission.
14. The strategy recognises *‘that most of the policy levers for the development of the sector rest with the Federal Government and that there is only a certain range of activities that State Government can influence. While it is the responsibility of government, Federal and State, to create the right conditions in which businesses can become more competitive, it is the businesses themselves that are primarily responsible for making the necessary changes.’*
15. The Report expands the five elements of the strategy:

‘Strategic Framework for Key Initiatives

What is Innovation?

Innovation can be defined as the generation, development and adoption of new ideas. It is not only a technological issue - innovation is also a cultural and management issue. All firms need to focus on being innovative in order to create and sustain competitive advantages.

Six identifiable innovative activities are:

- *new products;*
- *new services;*
- *new methods of production;*
- *opening new markets;*
- *new sources of supply; and*
- *new ways of organising.*

Innovation is not just about R&D. Innovative thinking needs to be applied to all aspects of business processes and relationships, management culture, strategies, marketing, skills, education and training. All businesses should have a clearly defined innovation strategy that sets out how the business will increase the value-added component on processes and services delivered by the business. Good design and product innovation

can help differentiate products and establish consumer loyalty and trust, often allowing products to sell at a premium price. Design and new product development can have an impact on most product areas.

Why Invest in Skills, Education and Training?

The TCFL Strategic Audit, and the experience of other countries in transforming their manufacturing sectors, has revealed that skill development, vocational training and higher education qualifications are crucial to survival in a globalising economy. The Victorian Government funds an Industry Advisory Body for the development of an Annual Training Plan for the TCFL industry. The Victorian Learning and Employment Skills Commission (VLESC) is currently undertaking a review of industry advisory arrangements in Victoria with a view to ensuring the highest quality information and intelligence on industry training requirements is available to the Government. The VLESC will consider the outcomes of the review in September 2002. Workforce knowledge and skills will increasingly become a major source of competitive advantage. Innovation and strategies aimed at value-adding activities can only succeed with the use of an appropriately educated and trained workforce. The TCFL industries need strong and relevant skills to compete successfully in global markets. However, delivering the necessary skills in a single blueprint for the whole sector creates a major delivery problem. This arises due to the diverse nature of the TCFL industries, differing skill sets and the critical need for firm-specific technology training. Unfortunately, there are many businesses that operate without a discrete company training plan or a specific budget for training. Business should formalise their training needs and integrate them into their business plan. A dedicated training budget would demonstrate a commitment to ensuring that training actually happens.

Finding Larger Markets in Other Countries

Australia's domestic market is small by world standards and is absorbing increasingly higher volumes of imports of TCFL product. Businesses therefore need to reduce their reliance on the domestic market through increasing the current levels of exports, creating strategic alliances and

linking with international supply chains. With the growth in imports likely to continue apace, there will be increasing pressure on local manufacturers to develop innovative strategies based on adding greater value to their products in order to avoid competing head-to-head in low cost, low margin product markets. In addition to relatively well established opportunities in developed markets, new market opportunities are emerging in some developing countries such as the United Arab Emirates. Trade barriers will continue to decline, providing opportunities for Victorian exporters. Special attention should be paid to the need to develop global alliances. The ability to forge relationships within international supply chains is a key strategy for developing growth and a strong foothold in export markets.

Working Together for TCFL Success

The Victorian Government's aim is to encourage greater levels of understanding, co-operation and co-ordination at all levels within local TCFL value chains. As the TCFL Strategic Audit noted, given the small size and limitations of the sectors resources, businesses should look for opportunities to forge collaborative partnerships and alliances.

Opportunities exist for manufacturers and suppliers to develop their own retail outlets in competition with established retailers. Opportunities also exist for firms to collaborate in the areas of finding export markets, developing training programs and product development. Firms should also explore opportunities for sharing production facilities and capabilities.

Improving the Public Perception of the Industries

There is a general public perception that TCFL industries are in decline, are 'low-tech' and do not offer good career prospects or rates of pay. All of these factors make it difficult to recruit new and talented entrants to the sector. Some of these perceptions are misconceived and attention needs to be paid to presenting the positive side of the industry to potential recruits. Like other manufacturing sectors, TCFL industries need to forge closer links with schools, teachers and career advisers to present a positive view of their industry.'

16. In the context of this background information the VTHC consider it is vital that the Commission makes recommendations to the Federal Government on required action within the TCF sector that seeks to co-operate and enhance the approach taken by the Victorian Government.
17. The Commission should recommend to the Federal Government that:
- TCF tariffs are maintained at the current level until such time that our major trading partners reduce their tariff and non-tariff barriers to a level equal to Australia;
 - TCF tariffs are maintained at the current level until such time that it can be demonstrated that any reduction in the current levels is in the interest of Australian businesses and employees within the TCF sector;
 - TCF tariffs are maintained at the current level until such time that it can be demonstrated that any reduction in the current levels is in the interest of those Victorian regional communities identified by the Victorian Government where manufacturing accounts for more than 25% of production in the local community;
 - There is continued adequate funding made available for an industry assistance program similar to SIPS (Strategic Investment Program Scheme). Any new programs however should ensure that businesses that receive assistance commit to the on-going employment of Australian workers;
 - There is adequate funding made available for a re-training program similar to the Labour Adjustment Program (LAP) that is specific to the TCF sector and pays workers for re-training;
 - Legislation is swiftly passed and thoroughly enforced that ensures that all TCF industry workers, including home-based outworkers, receive award wages and conditions of employment and that all work is undertaken healthy and safe workplaces, free from discrimination, exploitation, violence and danger; and,

- The Corporations Law is amended to ensure that workers' entitlements are given priority above all other creditors in the event of company collapses and that workers receive 100% of their accrued entitlements.