

4th March, 2003

TCF Inquiry
Productivity Commission
P.O. BOX 80
BELCONNEN ACT 2616

RE: Post 2005 Textile, Clothing & Footwear Assistance Arrangements - Submission

The condition of this industry reminds me strongly of the story of the Titanic. The Titanic being the biggest and fastest ship of its day was regarded in awe and wonderment. When Captain Smith sailed from Liverpool in the Spring of 1911, the Directors of the White Star Line told Captain Smith they would be very pleased if he could make the fastest crossing of the Atlantic. Naturally Captain Smith decided he would do everything he could to accede to the Directors' "request".

During the crossing he received by radio a number of warnings from other ships that they had observed icebergs, or that they were stopped by iceflows, or they were proceeding at slow speed which were the correct precautions in that situation. However, Captain Smith apparently was fixated on only one course of action, mainly to break the record. His mind refused to admit or consider the whole situation and the obvious dangers. Perhaps he thought his ship was unsinkable. All we know is that as a precaution he posted extra lookouts, but would not consider reducing speed. The result five out of I think 14 water-tight compartments were ripped open, which then made it impossible for the Titanic to stay afloat.

The present actions of this Government are very similar to those of the Directors of the White Star Line and the Master of the Titanic.

Many years ago it was decided to adopt a policy reducing tariff protection for Australian manufacturing industries to zero rates of duty, which were later amended to 5% as the maximum rate. I understand that this was to essentially pay for the cost of administration of the Customs and Tariff Department.

There has been a slavish following of this policy irrespective of the damage it is causing, and has caused, to manufacturing in Australia. While I don't want to go into the reasons for this policy and discuss its inherent weaknesses, it is sufficient to say the policy gives all other countries that trade with Australia an enormous advantage relative to their tariffs, because Australia is giving everything without getting anything in return from other countries around the world. That is, we have minimal bargaining advantage.

If the Australian Textile and Clothing industry is not to go to the bottom of the ocean like the Titanic, then there must be a drastic change in course to avoid the icebergs still in the path of textiles.

I am aware of many icebergs that have sunk sections of this industry. The following is a list of a few businesses that are no longer working and have caused the loss of employment to many thousands of employees, and I am told many of those employees are still unemployed. The companies I can recall are Camel Dyeworks, Brush Fabrics, Fabric Dyeworks, Austrim, Givoni, large portions of Bradmill, Yarra Falls, Cuggi, Du Pont, Marquise, Universal and National Textiles. This is not an exhaustive list, but all these businesses have closed their operations, and their equipment was either sold in Australia, or in many cases sold overseas, or sent to the scrap metal merchant. I am aware of 2 companies that received government financial assistance and also have now closed, namely National Textiles and Bradmill. The list does not include companies that significantly restructured and closed portions of their operations, such as Rocklea Spinning and Australian Dyeing Co.

If the Government keeps going on its present course over the next few years, there will be a total collapse and implosion, and the only place you will find the industry will be in the morgue or the bottom of the ocean.

This Commission has no alternative but to recommend a total change of policy. The present levels of protection must be continued beyond 2005, because it is patently obvious to even "Blind Freddie" that at present day levels the industry is not sustainable.

My earlier Submission highlighted the two weak links or carriages that are causing the most problems. It is those that have a high labour content, namely garment making and dyeing.

Later I will give remedies that the Commonwealth Government can introduce that will help those two sections to become more viable and thus enable the remaining carriages to continue to progress forward.

I am particularly concerned regarding the dyehouses as they are such a crucial link in the system. If dyehouses collapse the whole industry from spinners to makers-up die. Because fashion apparel is such a fickle and variable product, the producers of it must have a wide range of equipment to be able to produce the effects, handle, and appearance fashion demands. I deliberately use the word "demands", because fashion can not be dictated to by marketing exercises, but follows along on its own difficult to predict path. People buy fashion clothing because it gives them the feeling of being "up to date" and "with it" and "cool". Fashion enhances a person's ego.

The Dyehouse with which we work has the following list of equipment and I believe has the best and widest range of equipment in Australia and is up to world standards. (See attached appendix) This wide range of equipment imposes a significant capital cost, plus the cost of training operatives to use the equipment, and is what Australia must have if it is to be able to continue exporting creative fashion fabric on the international market.

Although there are other dyers in Victoria, to my knowledge all of them are only capable of dyeing relatively simple non complex fabrics. The art of dyeing is significantly more than putting colour X onto a fabric and then drying it. Even the dyeing of colour x consistently to the same shade is very difficult and requires a lot of skill and detailed knowledge and experience.

Balance of Payments

Australia is continually having a balance of payments deficit. Our vulnerability to this problem is well known and well documented. I will mention three areas where our balance of payments problems may become even worse in the future.

Three of our principal sources of foreign currency are Tourism, Export of Minerals, particularly coal and natural gas, and Primary Products. The future significance and importance of all three of these sections are under a cloud.

Tourism – September 11, Bali and Iraq have made many people reconsider plans for international travel. Nearly all international airlines are struggling to remain viable due to the world communities perception of the “danger of flying”.

Export of Minerals – By definition all mining activities must eventually cease when the product becomes too expensive to extract. For example many coal mines in Europe particularly England. Of probably more importance, is the continuing realisation that global warming caused by the burning of fossil fuels, is causing more and more severe variables in the world's weather patterns, in particular severe flooding in many parts of Europe and China, and severe droughts in Central Africa and Australia. I expect in a few years time the world's politicians will act cohesively to reduce greenhouse gas emissions by using strong disincentives to burning fossil fuels. To my amazement the world politicians did act to curtail and stop using “Freon gas” as a refrigerant and propellant for sprays, and now 20 years later we find that the hole in the ozone layer over the South Pole has stabilised and is just beginning to diminish. One can expect that in another 5, 10 or 15 years time, concerted efforts will be made to drastically reduce firstly, the burning of coal to generate electric power, and then to stop using oil sourced energy for generating electricity.

Primary Production – This country has been in the grip of a severe drought which may or may not be over. Already we know that our grain exports measured by tonnage will be 25-50% of a normal non-drought year. With the rain we have had in February, it has increased the price of livestock dramatically resulting in export abbatoirs closing down as they cannot afford to buy livestock. This situation will take 2 years to correct itself. Another important export commodity is likely to cease due to lack of water, namely rice. One rice miller has closed and has stated it will not reopen. Similarly regarding the wool clip, it will take several years for the sheep numbers to increase for us to be able to gain extra export dollars from raw wool.

The above three examples are only the examples I can think of quickly where our exports are decreasing. Thus the correct policy for the Australian Government is to discourage the import of products that can be made in this country. If we don't, then the forecast of Paul Keating re a banana republic will come true, and Australia will find itself not unlike Argentina, or perhaps like Premier Lang of NSW who found that his State had borrowed so much from overseas, in his case England, he could not even borrow the necessary money to pay the interest bill.

Continuing adverse balance of payments means we are either borrowing more from lender countries, usually in their currency, and the liability is in their foreign currency, so that if the Australian dollar devalues the size of the debt increases. Alternatively, we are selling more

of “the farm” to countries which have foreign exchange surpluses, which is many of the emerged and emerging Asian countries.

Remedies to ensure Australian Textiles and garment manufacturing does not collapse and totally implode.

Maintain the present levels of protection until the year 2010. This is an absolute minimum. I should be saying increase rates of duty for garments entering Australia, until those countries supplying us have similar laws and penalties for companies that trade when they are insolvent. I have read most Asian countries have totally ineffective legislation, courts and legal systems to deal with bankruptcy. Patrony, nepotism and protection from the elites in power is how many manufacturers in Asian countries trade and do business. So the correct policy must be one in which duties on imported garments are increased and not reduced, until it can be proven that Asian manufacturing have to meet the same standards of solvency as their counterparts in Australia.

The following are less dramatic actions that a more timid government can introduce:

Rates of Duty – At present some yarns which are acknowledged by Customs as not being produced in Australia, for example Elastaine and Filament Viscose Rayon, have a duty rate of 3% and not 0% to help the Customs Department pay for their administration. That is, this industry subsidizes the public sector. The elimination of this 3%, although relatively small, has significant multiplier effects if my gross margin is 25% and garment manufacturers 50% and retailers 120%.

Payroll tax and Workcover payments - As previously stated the vulnerable sections are dyehouses and makers-up. The way the Commonwealth Government can help them is to allow these 2 sections, and only those 2 sections, to claim a 330% deduction on their Company Tax rate for those 2 expenses. This means that provided they are profitable they will effectively pay nil Payroll Tax and nil Workcover . I stress again this benefit is only for dyehouses and actual makers-up.

The offshore garment manufacturing when performed honestly is of doubtful value to spinners, weavers, knitters and dyers. It is of course hemlock to local garment makers-up. It is, however, a genuine benefit to Cathay Pacific, Singapore Airlines, Garuda, Qantas, Thai Air, etc, plus the various shippers and freight handlers, and I believe should be terminated.

Where Government can get money to carry out these programmes.

My Company, which is an innovative Company has discovered that the SIP Programme is a waste of resources. We were told by SIP that because we have been innovative for the last 20 years, we are only doing what we have been doing for years, namely to think about problems and fashion demands and come up with successful answers. On SIP's rationale, the CSIRO should not get any assistance because it only does what it has always done, as we have done – think about the problem; work out the theory to solve the problem, and then go to the practical method to produce the product.

There is another section of this industry on which I wish to focus your attention and that is retailing. It is no secret that the biggest apparel retailer, in its various sections, is running a money losing, or at best, a break even situation. This is in spite of the fact that they work on

mark-ups of 100% to 300%. I believe the basic cause of their problem is that in apparel retailing, Australia has excessive capacity. This excess capacity is largely due to the much longer trading hours, which means higher staff levels for the same volume of sales. In two areas of retailing there has been a considerable reduction in the number of outlets, so that for the longer hours they are open, the people working in these outlets are busy and productive. The two sections of retailing are banking and petrol service stations. I have only my own observations, but I imagine that in both cases there are now only approximately 50% of the outlets that were in place say five years ago.

This gets to the next phase of the problem. Already the industry has collapsed to the extent many of my raw materials, previously made in Australia, are now no longer produced. Two product examples are:

1. Du Pont no longer produces any nylon yarn
2. Rocklea, who was the principal spinner of ring spun yarn after the demise of National Textiles and Bradmill Spinning, itself no longer spins ring spun yarn. To buy ring spun yarn using Australian cotton I have to buy it from India.

As stated earlier I am very scared of a total implosion and collapse of the total industry from spinner to garment maker over the next 2-4 years if the situation is allowed to drift as at present.

The cost of closing a business with redundancy and long service leave payments is so great that many companies cannot afford to close. Unfortunately, the future cost of redundancies and long service leave payments cannot be shown as a present day cost in a company's books. This can be regarded in a similar manner as depreciation of capital items. It is a future cost that the company should be able to show as a long term liability. Thus this Commission must recommend that the Government make available funds so that there can be an orderly closing of companies while they are still solvent, rather than wait until the assets of the company have been dissipated and they are insolvent.

In summary, the Commission can follow Captain Smith's method of handling a problem, and put 2 men in the crow's nest with binoculars, or it can change course and reduce speed to avert the perils.

1. Changing course means 330% Company tax deduction for Payroll tax and Workcover, and if possible for superannuation payments. This benefit is only to be available for the sections that have high labour costs which I have identified as Makers-up and Dyehouses. I know Payroll tax is a state tax which varies between states, but I believe it would be impossible to get all the relevant states to reduce their payroll tax.
2. Increase duties on garments from those countries that do not have transparent and open accounting systems and transparent systems for closing companies and for bankruptcy. This higher rate of duty to remain in place for 5 years from 2005.

3. Alternatively the Commission can recommend a system of payments to allow companies to close in a neat and orderly manner so that employee entitlements can be paid.
4. The funds to pay for these recommendations can come from the SIP Programme which should be closed as it is akin to moving the deck chairs on the Titanic.
5. Companies whose profits are insufficient to take advantage of these tax deductions should be able to sell them into the market place.

Attached is an appendix from our Dyer showing the wide range of equipment and facilities it has for dyeing any knitted fabric type and different fibres and dye batch sizes.

I know this submission contains many radical ideas but without a radical change in policy, this industry has an extremely limited future. Although this Company exports to a number of countries our ability to be able to export is 100% dependant on the continuing viability of local dyehouses and garment makers. The experience and knowledge we have as a local supplier flows into our export programmes.

Please accept that this is a serious submission by a person who has had a life-time in this industry, and give it the maximum amount of consideration you are able to give.

Yours faithfully,

IAN JOSEPH
MELBOURNE TEXTILE KNITTING CO. PTY LTD