

The Geelong Chamber of Commerce

Advancing Business and Industry in the Geelong Region

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6 March 2003

Dr David Robertson
Commissioner
Productivity Commission
P.O. Box 80
BELCONNEN ACT 2616

Dear Dr Robertson

Submission to Inquiry into Post-2005 TCFL Assistance Arrangements

The Chamber has resolved to prepare a submission to the above Inquiry.

The Chamber's submission is attached.

The Geelong region has had a proud history of involvement in sectors in the TCFL industry virtually since Geelong's first establishment in the early 1800's. It started with wool growing and, with Geelong's port, which was first operated by the Chamber, the region had the opportunity to export this valuable product to Britain.

The region has continued its close involvement with the TCFL industry sector to this day and, despite massive losses following the 1997 tariff changes, still has over sixty companies employing 2150 staff.

The Chamber submits that the Productivity Commission should recognise:

- The real importance of the TCFL industry to the Geelong region.
- That further tariff cuts will have a drastic impact on Geelong's TCFL industry and result in, again, a large number of job losses with significant adverse social and economic effects.
- That the advantageous effects of critical mass of the TCFL industry in the Geelong region will be severely threatened by any further reductions in import tariffs in the TCFL sector.
- The imperative of providing assistance measures to enable the Australian TCFL industry to be globally competitive.

The Chamber strongly urges the Productivity Commission to heed the comments made in its submission and to report to the Federal government that further cuts in import tariffs in the TCFL sector are unsustainable.

Yours sincerely

Lawrie Miller
Executive Director

Proudly Celebrating 150 Years of Service to Geelong's Business and Industry in June 2003

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Advancing Business and Industry in the Geelong Region

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

6 March 2003

1. INTRODUCTION

Chairman and Members

On behalf of its members and the community of the Geelong region, The Geelong Chamber of Commerce makes this submission on Post 2005 Assistance Arrangements for the Textile, Clothing, Footwear and Leather Industry.

The Chamber strongly believes that:

- The levels of import tariffs 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 five years hence i.e. no earlier than 2008;
- The Strategic Investment Program (SIP) and the Expanded Overseas Assembly Provision (EOAP) scheme must be continued at their current levels;
- The SIP must be changed to make it more accessible across the TCFL industry and the procedure for applying for SIP funding needs to be simplified.

In apprising itself to prepare this submission, the Chamber has had extensive consultation with local TCFL companies, the Geelong Manufacturing Council (GMC), the Geelong Textile Network (GTN), the City of Greater Geelong and other interested organisations and parties.

2. THE CHAMBER

The Geelong Chamber of Commerce has, as its primary roles, the fostering and advancement of business and commercial activity and being an effective and independent voice of business in the Geelong region.

The Chamber has operated since its establishment in 1853 and represents all business and industry sectors and is the peak business organisation in the Geelong Region. It is non-political and is totally independent.

The Chamber is funded solely by members' subscriptions and is answerable only to members - currently around 770 - who are drawn from a wide diversity of large, medium and small business enterprises and organisations operating in the Geelong region, and include Ford Australia, Alcoa, Godfrey Hirst, Shell Australia, Deakin University, Barwon Health, etc., to individuals.

The Chamber's Mission Statement is:

The Geelong Chamber of Commerce will advance business and industry in the Geelong Region through creative and innovative leadership, advocacy, co-ordination and promotion of business interests.

3. REGIONAL BACKGROUND

The Geelong region is one of Australia's leading TCFL centres. It has had a proud history of involvement in sectors in the TCFL industry virtually since Geelong's first establishment in the early 1800's. It started with wool growing and, with Geelong's port, which was first operated by the Chamber, the region had the opportunity to export this valuable product to Britain to see, for some time, the port transformed into the busiest for this export in Australia.

Wool scouring industries flourished along the Barwon River and became significant employers in the region. Overall, the wool industry in the region, both in primary production and value-added processes, exerted a powerful influence on Geelong's early economy.

Geelong's and the hinterland's wool industry became such a focus that it resulted in CSIRO establishing its wool research division laboratory in Belmont in the 1950's which is now known as the CSIRO - Textile and Fibre Technology (TFT) Division.

Over the ensuing years, the local TCFL industry has seen major changes. Today, it has specialised markets in certain types of clothing, carpets, fine-wool products, and surfing-related apparel. The region, despite the major cutbacks in the industry since 1997, has been recognised as a leading TCFL industry centre with more than sixty businesses operating in this sector.

The largest of these is Godfrey Hirst which employs 700 staff and is also the third largest manufacturer in the region. The top nine TCFL industries in Geelong employ some 66 per cent of the total TCFL staff in the region.

Since the reduced tariff regime was introduced in 1997, Geelong's TCFL industries lost some 1150 jobs. Despite this major loss of employment, the local industry still employs over 2,150 people directly (ABS: Census 2001), and, has an estimated \$440 million turnover, and accounts for 14.2% of Geelong's total manufacturing workforce. When this TCFL workforce is extrapolated, by using

an accepted multiplying factor of 1.38, a further 2,840 jobs are calculated to be involved and interdependent in related industries,

This compares more than favourably with both the Victorian and Australian percentages of 8.9 and 7.0 respectively and demonstrates the reliance that the Geelong region places on the TCFL sector.

Further, the Geelong region has been fortunate to see sustained growth over the past five years or so. Its level of unemployment has reportedly reduced from almost 13 per cent in 1997 to 6.3 per cent in June, last year (ABS: Barwon Western Region - January 2003).

Though this is challenged somewhat in a further statement about regional unemployment under Section 6.

4. THE TARIFF DEBATE

The Federal government puts the case that Australia is bound by international arrangements with the Asian Pacific Economic Co-operation (APEC) and the World Trade Organisation (WTO) to reduce its import tariff levels. But this does not translate to the same action by its trading partners! Both Japan and the USA have not put their equivalent regimes into place or have even approached the tariff reductions already carried out by Australia.

Plus, these countries have their own other effective barriers to restrict trading operations from Australian exporters.

Both China and India, which have been identified as potential markets by Australian textile exporters, still have high tariffs on a range of products which include woollen garments, woollen yarns, non-wovens and carpets.

The argument also put forward by the Federal government is that Australia must reduce its import tariffs to be truly competitive and be "open" to outside markets. It uses the hackneyed term that Australia must adopt a "level playing field", where imports and exports are concerned, which will allow unrestricted access to all markets world-wide.

But the Chamber knows that, from discussion with members, this is definitely not the case. There are other barriers or obstacles that are put up by other countries that effectively block this "free access".

These include quotas, voluntary export restrictions, excessive and costly labelling requirements, minimum domestic content requirements, etc. Also, many countries have seized these as

opportunities to replace import tariffs as liberalisation of global trade has become more recognised and accepted.

Again, local subsidies for industries in other countries are another form of restriction militating against access by Australian exporters.

This leads the Chamber to its argument that, to be fair to all involved, Australia should not "lead the march" world-wide to reduce its import tariffs.

The Chamber believes and strongly makes the point that Australia should not allow any further tariff reductions unless there is open, transparent and unconditional agreement and a guarantee that its trading partners will definitely do likewise.

5. IMPACT OF TARIFF REDUCTIONS

The direct impact from the 1997 tariff reductions saw 1150 employees lose their jobs in the Geelong region!

This was expected because of the labour intensive nature of TCFL industries. Labour costs are still a significant part of the total cost of manufactured TCFL products. This is still inescapable and has led some Geelong-based companies to stop their manufacturing operations here to see them set up in an Asian country where labour is cheap.

Again, the low import tariffs introduced by the Australian government has allowed them to do this and effectively bring these manufactured products into Australia under their labels. The only consolation is that the profits from those companies may stay in Australia.

Further, the concentration of TCFL industries has changed dramatically since 1997. Geelong is still very fortunate to have over sixty companies manufacturing in the TCFL area whereas other regions have completely lost their industries through overseas competition.

However, any further reduction in tariffs will see further reduction in the Geelong region's companies' viability and their opportunity to remain open. This will, again, have a dramatic impact on this region under the catchcry that every Australian will benefit from reduced prices of goods as a consequence of lower tariffs.

The only outcome that is guaranteed is that jobs will be again lost in the Geelong region!

6. PLACEMENT OF TCF EMPLOYEES

The Geelong region has seen, first hand, the problems for many TCFL workers who were retrenched as a consequence of the 1997 downturn as a direct result of the tariff drops.

Many TCFL workers found that their skills were not readily transferable to other industries - local or elsewhere.

The Chamber was directly involved in the Office of Labour Market Adjustment (OLMA) program which gave local funding to provide training opportunities and new business opportunities which, together, would help overcome losses in local employment as a result of tariff reductions or changes to government support programs. The Chamber witnessed, first-hand, the low tangible results achieved under the OLMA program.

Research carried out in 1999 by the University of Melbourne found that, of 600 retrenched TCFL workers, over half of them were still seeking employment two years later! The Geelong region has had similar research done that supports this finding.

TCFL industries are also big employers of people from non-english speaking backgrounds, particularly females. These have great difficulty in finding new employment when retrenched and, if married or with a partner who also works, they are not eligible for unemployment benefits and they often give up seeking work or are not even statistically captured.

This leads to unemployment numbers that hide the actual situation.

In the *State of the Regions* report by the National Institute of Economic and Industry Research (NIEIR) in December 2001, the Geelong (Barwon) region's unemployment was assessed at 12.7 per cent which is very close to the official unemployment figure for the region in 1997! However, the present official unemployment figure is quoted at only 6.3 per cent!

NIEIR's research suggests that the official figure can be corrupted due to:

- shifts of long-term unemployed into other types of social security benefits, and
- relaxation of the income test for social security benefits which encourages part-time work resulting in those not being counted in the regular ABS Labour Force Survey.

If this is the case, and some observers suggest in Geelong that the supposed growth in employment has not actually materialised into known jobs, then the Geelong region's employment situation is not as good as claimed.

NIEIR also estimated that the Geelong (Barwon) region's income includes twenty per cent generated from Social Security benefits and that the region is ranked at position 41 out of 60 regions in terms of social security dependence!

The Chamber believes that this situation is a further demonstration of regional impact which argues against reduction in TCFL import tariffs.

7. CHANGES MADE

During the past eight years, the TCFL industry in Australia has made changes to make itself more globally competitive which has led to a broadening of its markets from national to international. It has actively pursued the export market with the gratifying result of an increase in value of TCFL exports of some 112 per cent in ten years. The Geelong-based TCFL industries also share in this increased development.

Unfortunately the Chamber believes that this improvement will be placed in jeopardy and further gains lost if import tariffs are reduced and SIP and AEOP programs are not continued.

The Chamber believes that, if import tariff levels are reduced and the current assistance measures are not continued, Geelong's TCFL workforce will be subject to further drastic cuts bringing with them negative effects that will be felt throughout the region's economy.

7. CRITICAL MASS

When the Federal Government announced this TCFL review, it said that each policy option put forward by the Productivity Commission would be assessed to determine its impact on regional Australia.

The TCFL sector in the Geelong region contributes almost \$70 million in wages and salaries annually to its economy.

The concentration of more than sixty companies with 2150 employees, which account for 14.2 per cent of all staff in manufacturing operations in the Geelong region, has been a recipe for the region's success in the TCFL sector despite the drastic reductions following the 1997 review.

Much of this workforce which contributes this expenditure will be lost if tariff levels are further reduced because the critical mass of TCFL companies required to make the sector viable will also reduce. Eventually it will become non-existent.

Geelong region's TCFL companies have told the Chamber that they really question the ability of the local TCFL sector to continue to supply raw materials, skilled labour, training programs and technical support at their present levels if tariffs are reduced.

This could result in annihilation of the Geelong region's TCFL 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 Chamber believes that the Productivity Commission must recognise that a reduction in both tariff levels and industry assistance measures will be another serious blow for TCFL industries in regional Australia and, in particular, the Geelong region.

8. VALUE ADDING

A recent NIEIR report found that Geelong has to integrate the region's research bodies into its industrial structure to maintain its success. Geelong has important research institutions that are dedicated to finding innovative ways of adding value to TCFL products with more than 250 staff employed in research, education and training roles. These are in addition to those employed directly and indirectly in the TCFL industries previously mentioned.

The Geelong region's TCFL industry has a strong relationship with these local education and research institutions viz. Gordon Institute of TAFE, Deakin University, CSIRO - TFT Division, and the International Fibre Centre.

These institutions provide the local industry with state-of-the-art research capabilities supported by appropriate staff training programs. The Geelong Textiles Network strongly promotes this association. They assist in promoting opportunities to form alliances and partnerships to facilitate value-adding capabilities to increase development and become more globally competitive.

The Chamber believes that this type of opportunity will be less likely to occur if the critical mass of TCFL companies in Geelong is lost due to a reduction in tariff levels or industry assistance measures.

Further, the Chamber believes that more tariff cuts will see a reduction in research and development in the TCFL area with the likely scenario that these local institutions will lose valuable research programs with a concomitant loss of research staff.

9. INVESTMENT IN TCFL

The Geelong region's eminent education and research and development institutions have also added significantly to its recognition as a region with viable opportunities for TCFL investment.

Deakin University currently offers the local TCFL industry flexible learning and research expertise and is the only university in Australia with an expanding program of applied research for industry in

fibres and textiles. The establishment of the \$17.5 million Victorian Centre for Advanced Materials Manufacturing (VCAMM) project at Deakin University further increases the manufacturing capability in Geelong.

10. NEED FOR INDUSTRY ASSISTANCE MEASURES

In addition to import tariff levels remaining at their current levels, the Chamber believes that funding for the SIP scheme should be increased and made easier to access across the TCFL industry and, in particular, for smaller companies.

The aim of the SIP scheme is to improve the ability of Australian TCFL industries to be sustainable and internationally competitive in the freed-up trade environment post-2005. Australian companies need to be encouraged to increase their investment in new plant and equipment and to undertake more research and development and product development. The SIP scheme aims to achieve this through making a series of five different grant opportunities available to TCFL companies.

Discussion with Geelong TCF companies has shown that many of them believe that the SIP needs to be broadened across the industry. They cite, for example, firms involved in early stage processing of cotton and wool that are not eligible for SIP funding if they are not part of a vertically integrated process. Geelong has a number of companies in this situation that are missing out on government assistance particularly with the current threshold. Further, the process of applying for funding under the program is considered too complex and difficult with the result that many firms do not make use of SIP.

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 scheme's effectiveness. Again this is the view shared by the Geelong region's TCFL industries.

The supply chains from raw material to finished products in the TCFL industry are long and complex with processes that are often complex and involving very expensive equipment. These factors and the difficulties in gaining new markets for new products make rapid change and restructuring difficult. This is a further compelling reason for assistance measures to continue beyond January 2005.

The Expanded Overseas Assembly Provision (EOAP) scheme provides import duty concessions to Australian companies assembling goods overseas predominantly using Australian materials. This scheme should be continued as it helps to retain higher value-added activities in the Australian market if labour intensive stages are moved off-shore.

Geelong is fortunate to have a strong concentration of research institutions and is therefore well placed to improve the value-added stages of production.

10. IN CONCLUSION

The Chamber submits that there is not sufficient justification for the reduction in import tariffs on TCFL goods to warrant the drastic impact on the Geelong region's TCFL industries that will surely follow.

The Chamber further submits that the Productivity Commission should recognise:

- The real importance of the TCFL industry to the Geelong region.
- That further tariff cuts will have a drastic impact on Geelong's TCFL industry and result in, again, a large number of job losses with significant adverse social and economic effects.
- That the advantageous effects of critical mass of the TCFL industry in the Geelong region will be severely threatened by any further reductions in import tariffs in the TCFL sector.
- The imperative of providing assistance measures to enable the Australian TCFL industry to be globally competitive.

The Chamber strongly urges the Productivity Commission to heed the comments made in this submission and to report to the Federal government that further cuts in import tariffs in the TCFL sector are unsustainable.

Submitted for and on behalf of The Geelong Chamber of Commerce by resolution of its Council.

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