

INQUIRY INTO POST 2005 TEXTILE, CLOTHING & FOOTWEAR ASSISTANCE ARRANGEMENTS  
SUBMISSION PREPARED FOR THE PRODUCTIVITY COMMISSION by JAMES NELSON TEXTILES GROUP  
MARCH 2003

## JAMES NELSON TEXTILES GROUP - SUBMISSION TO TCI' POST 2005 INQUIRY

Executive Summary

The James Nelson Textiles Group (JNTG) comprising Jaines Nelson Tasmania (Launceston), Hilton Fabrics (Ballarat), and Omnitex Industries (Hawthorn) is involved in fabric weaving, dyeing and finishing. The James Nelson Group currently employs some 180 people, with consolidated sales for the manufacturing units of around \$20 million, annually.

As a group, JNTG encountered a difficult financial period in the late 1990's, compounded by the schedule of tariff reductions through to 2000, which led to the closure of a number of the Group's key customers. The Group was harshly affected by the consequent restructuring of the TC17 industry and the demise of the weaving mill's major customers, incurring substantial bad debts. However, as part of JNTG's own re-structuring process we strategically reviewed our operations which resulted in exiting increasingly unprofitable markets (e.g. the knitting market for our dyehouse which is very price competitive and low volumes) and up-grading new plant and equipment. MG is now well into the process of turning its financial position around and is focussing on developing only those activities that clearly have the prospects to be profitable and sustainable.

The introduction of the WF Strategic Investment Program (SIP) and the freeze on tariff levels until 2005 has helped MG to reposition itself in the TCI' industry and give us the necessary confidence to commit to our new strategic direction. However, it is vital that the SIP scheme or something similar to the current SIP scheme be continued Post 2005 to encourage the necessary, continuing restructuring process. Furthermore, there is a need for additional assistance to regional areas to address the unique, additional costs encountered by regional businesses.

MG does not believe further reduction in tariff levels post 2005 and 2010 will bring any significant benefits to Australian consumers. To the contrary, JNW believes further tariff reduction will act simply to diminish Australia's manufacturing capabilities with no offsetting benefits to the general economy (especially taking into consideration the social impact of further TCI' closures). In addition to maintaining the current tariff levels, MG also wish to support any Government initiatives to review our trading partners trading policies and arrangements to ensure they also adhere to a policy of opening up their markets for TCF products, to the same extent as Australia.

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Introduction

This submission to the Productivity Commissions Inquiry into Australia's TC17 industry, will focus only on those aspects of the Treasurer's Term of Reference, of direct relevance to the James Nelson Textiles Group's (JNTG).

MG consists of three manufacturing units. These are located in Launceston, Tasmania and in Ballarat and Hawthorn, Victoria. The James Nelson mill in Launceston was established in 1951 as a branch of James Nelson of the United Kingdom. In 1967, the parent company was acquired by Courtaulds UK. When Courtaulds decided to withdraw from weaving lightweight fabrics in 1982, the mill was purchased by the Pila family. After in-depth research and analysis, a major re-equipment program was instigated in 1984. The existing shuttle weaving looms were replaced by modern rapier looms. This in turn necessitated a complete refurbishment of beaming, sizing, looming and in the air-conditioning/humidification of the facilities.

With the equipment upgrade and an increased focus on quality, it soon became evident that a dedicated dyehouse would improve the organisation's overall efficiency and flexibility. Thus, the (new) James Nelson Group acquired the Hilton Fabrics dyehouse in Ballarat in 1986. Again, a major re-equipment program was undertaken.

In addition to dyeing all the fabrics woven by James Nelson (Tas), Hilton Fabrics has become a strong participant in the commission dyeing market, by installing a wide variety of finishing machinery to obtain high quality woven fabrics in the natural fibre market. Onmitex Industries, which is based in Hawthorn, Melbourne, is engaged in the manufacture of ribbons and in textile coating. The Melbourne site also serves as the Group's head office.

Despite continued restructuring in the 1990s, MG confronted significant financial difficulties towards the end of that decade as we try to deal with the accelerated contraction of the TCF industry induced by the steady cuts in tariff over that period. However, we responded to this pressure by continuing to up-grade production facilities, implementing restructuring programs, and adjusting to the increase price pressures within the industry. A major part of our re-positioning in the Australia market place in recent years has been to shift from dyeing knitted fabric at our Ballarat dyehouse, to purely dyeing woven fabrics. We have also ventured into the dyeing and finishing of worsted and woollen fabrics, with our acquisition of Gibbs Burge Pty Ltd machinery, in 2001, we consolidated this with our operation at the Hilton Fabric site in 2001/2002. The fact that we have been able to sustain our operations through this period, and effectively refocus our operations, bears testimony to the strength of the organisation and its response to market dictates.

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Today, James Nelson (Tas) produces woven fabrics; mainly synthetics, although it is exploring the use of some natural fibres (eg. cotton/cotton blend for furnishings, and wool). It employs 88 staff at the moment, with a quarter of these in technical administrative roles. While it is operating profitably, current demand for its output is only requiring around a 70% capacity utilisation at the plant. To generate a viable return at this utilisation rate the mill is focussed on responding to customer needs. This means it has needed to be prepared to offer a large and diverse product range, which in turn has necessitated significant attention on production planning and technical support functions.

Hilton Fabrics is engaged in dyeing and finishing fabric, of which 70% is commission work and 30% is for James Nelson (Tas). Although there is scope for taking advantage of the vertical integration contained within the Group, each entity operates relatively autonomously, with the weaving mill essentially being treated as any other commission customer. Hilton Fabrics employs 78 people at the present time.

#### Spact of Current Assistance Arrange

The current assistance measures including the TCI' Strategic Investment Program (SIP), the Export Overseas Assembly Provisions Scheme, Export Market Development Grant, and market access initiatives has promoted some desirable structural changes for the TCI' industry. But of these programs, the major incentive for the industry, and SNTG, has been delivered by the SIP Scheme.

The SIP Scheme has assisted JNTG in accelerating its restructuring process through the acquisition of new plant and equipment including new fabric dyeing machines, new computer hardware and software for manufacturing, revision of our management information system, with specific regard to production control, and has encouraged an innovative product development strategy. However, JNTG believes the SIP scheme fails to fully address the needs of regional businesses in areas including training and development, freight and logistic cost, infrastructure cost, higher insurance cost, access to ports, and availability of skilled labour.

During the past two years JNTG has implemented systems and procedures to successfully develop a culture that fosters and rewards innovative product and process development initiatives. The SIP scheme has assisted in minimising the uncertainty and cost associated with product development and process improvement projects and has given us the confidence to embark on more ambitious projects than would otherwise have been the case. The SIP Scheme has enable TNTG to undertaken research projects to service higher value added markets.

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JNTG believe with further consolidation in the TC17 industry and the event of further tariff reductions Post 2005 a scheme such as SIP would help continue the restructuring process already underway in the industry.

[Pressures Confronting JNTG]

Overall, JNTG's recent performance in terms of productivity and profitability are encouraging given the pressures facing the TCI industry. MG has endured immense pressures in the past few years including consolidation of the TCI industry, the restructuring of the organisation, implementation of various process improvement projects, the acquisition and implementation of new plant and equipment, and development of new products and new markets. As a whole, MG considers that the following influences (both opportunities and threats) will have a significant impact on the organisation's overall performance:

• Strong price competition in dyeing and finishing

- The growth of the furnishing and geotextiles sector
- Niche markets for fashion/design oriented fabrics that requires quick response readily adaptable products
- Emerging strength of industrial fabrics
- Strategic alliances (both domestic and-overseas)
- Government policy (ie continuation of the SIP Scheme and maintenance of tariff levels)
- Underpriced Import Competition - for example, coloured fabric costs only marginally more, if at all, than loomstate fabric (eg recent example of acetate linings - only 4c difference between loomstate and dyed)
- Increasing subsidies by overseas government to support their TCI industries
- Inability to attract appropriately skilled workforce (at both management and "shop floor" level) in regional areas

While MG has undertaken measures to achieve its future goals and minimise the external threats, there is a major role the State and Commonwealth governments can play to ensure that these opportunities are fully realised.

Workplace Issues

Workplace inflexibility or industrial dispute is not a issue for JNTG. Recently, MG has undertaken a survey of its employees to ascertain their perceptions of the organisation's performance, job descriptions, and level of job satisfaction.

Overall, the employees were generally positive and understood the pressures confronting the company and the TC17 industry as a whole. The survey also highlighted some areas that needed to be addressed

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(e.g. clearer jobs description, and training and development). As a consequence of this survey MG has implemented work place changes to help overcome these concerns.

With regard to labour productivity, Hilton Fabrics is currently producing around 17-18 tonnes per week. However, with the additional new plant and equipment and the processing changes introduced, Hilton is aiming to increase this to around 30 tonne per week (150,000 metres). This target output level is regarded as highly realistic, and would most likely be split 25 tonne for dyed, and 5 tonne scoured fabric. By switching output virtually solely to woven fabrics (apart from some wool knits), Hilton is better placed to service its customers and provide additional value for added services, in both short, quick turnaround runs and in fabric finishing. If marketed properly, this will give Hilton the scope to attract the right price for the product and service offered.

The intention is to increase overall output from the Launceston weaving mill by at least 50% over the next 2 years. While this will involve some restructuring of the production focus, James Nelson (Tas) will continue to produce its traditional product lines (Linings and acetate satins) while demand remains. However, the share of output that is directed to these established markets will decline, as we increase production of new fabric types for the newly emerging markets. The main areas of attention for new product development and increased market penetration will be in Geotextiles, PVC coated industrial fabrics, wax proof canvas, vertical blinds and to a lesser extent unique apparel fabrics (eg Colana).

As a group, James Nelson also recognises the potential benefits of utilising the potential supply chain advantages it has through a certain degree of vertical integration from weaving, through dyeing to finishing of fabric. We will increase emphasis on developing new product (and product refinements) through joint activities and projects by Hilton Fabrics and James Nelson (Tas). In turn, this will necessitate close liaison with potential customers by James Nelson as a group, not simply Hilton or JN(Tas) independently.

#### Market Access Issu

JNTG is undergoing a restructuring process that involves reviewing its current operations, developing its competitive advantage, reviewing its current product range, and production processes. Through this process JNTG is able to determine the most desirable and profitable markets and undertake the necessary product development initiatives to enter those markets.

JNTG's primary goal is in servicing the domestic market, however, due to the increasing rate of customers exiting the TCI' industry, MG is embarking on an exporting strategy to minimise its local exposure. However, MG has found limited success in accessing overseas markets due to many factors including our geographical disadvantage, overcoming non trading barriers, and the high cost and risk of developing overseas markets (not least of which is market research and familiarising ourselves with the new markets).

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JNW believes the current export assistance provided through Austrade and DFAT, while welcome, is inadequate to service all Australian exporters needs. This is evident as further reduction in funding to the EMDG scheme was announced in early 2003. JNW believes a frame work like the EMDG scheme could be incorporated into the SIP scheme to support market access initiatives within the TCF industry. Indeed we had understood that an initial intention of the scheme was to encourage new market development but this is not eventuated in the application of the scheme.

1Post 2005 Assistance

MG is encouraged by the Australian government's decision to freeze tariff levels until Post 2005. This period has given the TCF companies the opportunity to restructure for short term survival and long term growth. MG believe the long term survival of the TCF industry will be greatly enhanced if the Australia government maintain the current 2005 tariff level until 2010. Any further reduction in tariff levels need to be assessed based on our trading partner's tariff levels and non tariff barriers which our market remains more open than that of our major trading partners, there is no reason for further tariff liberalisation in Australia.

Further reduction in assistance (ie tariff reduction and positive assistance) Post 2005 will likely cause significant economic and social disruption to the regional areas as more TC17 manufacturers will exit the TCF industry. The high cost and pressure to restructure while maintaining a viable production facility would be unachievable without Commonwealth support.

MG is alarmed by the recent announcement by the Commonwealth government to remove all tariffs on products from less developed countries. This announcement will have a significant impact on the TCF industry. Already we are seeing M companies setting up manufacturing operations in less developed countries and customers looking to source from these countries to improve their margins and profits.

MG has undertaken significant organisational changes to maintain a sustainable textiles business in Australia. MG believes the SIP scheme has assisted in this process but consideration should be given to modify the scheme to address the pressure of regional manufacturing businesses and the need for a continued focus on new market development. The ability of MG to continue its restructuring process, and further develop new innovative products to service both domestic and overseas market will be greatly enhanced by the continuation and support of an assistance program that meets these needs.

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