



**Submission to the  
Productivity Commission Inquiry**

**The Post 2005 TCF  
Assistance Arrangements**

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***“The challenge is to rapidly increase the pace at which TCFL exports are growing.”***

TCF Action Agenda Paper, 2000

**Following are relevant quotes from the TCFL Action Agenda Paper, January 2000:**

- ***“The challenge is to rapidly increase the pace at which TCFL exports are growing.”***
- *“The Board believes that the present positive assistance in developing offshore markets is required to assist firms with the major adjustments demanded over the coming decade.”*
- *“The success enjoyed by certain Australian enterprises producing and marketing quality goods that compete on style and excellence, often in niche markets, is evidence that it is possible for Australian enterprises to use style, quality and marketing skills to successfully penetrate international markets.”*
- *“For those who have successfully recognised the opportunities available in the global economy and adopted practices associated with world-class performance, the results speak for themselves. The TCF industry is internationally oriented to a greater extent than ever before in terms of competing with imports and exporting. In essence, Australia’s share of international TCF exports has more than doubled over the 1990s to 22%. Compared with 1991, this is a substantial improvement. However, the Board believes that our optimum global position has yet to be realised and that there is scope for further expansion.”*
- *“Most of the large TCFL companies are sophisticated, mature enterprises and are supported by a highly skilled and technical workforce. The increase in exports over the last two decades illustrates that those companies in the industry producing premium specialty products can “hold their own” against the best in the world. “*
- *“There is considerable potential for enterprises to cooperate in penetrating overseas markets. Already companies producing similar products are cooperating and taking part together in trade displays where a number of companies promoting individual products are on the one stand under one image. The Board believes there is potential for this approach to be further developed within the industry.”*

**Following are relevant quotes from the The TCF Future Strategies Committee Report: 1994**

- ***“Government should sponsor a small group of individuals who would specialise in assisting TCF industries to export”***
- *“Delivery times function in the same way here as for yarns, with shipping times to Europe and North America probably excluding Australians for competing in the Fashion end of the market because of their inability to compete on response times. As with yarn, the more standard high quality fabrics, not being time sensitive, should not be excluded from these markets by reason of distance alone. Again, Australia will be geographically well positioned to take advantage of a future Asian fashion fabric markets.”*
- *“Although selling significant volumes of fashion fabrics may be difficult given the above considerations, other added value fabrics are less time-sensitive; fabrics with classic designs or special properties, for instance, may present an opportunity.”*

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## 1.0: EXECUTIVE SUMMARY

Fabrics Australia is an Austrade initiative that was developed in 1995 to address a recommendation made by the TCF Future Strategies Committee. It is a collective promotional body for the Australian textile industry. Membership consists of textile companies, all of which share an objective to market the capabilities and merits of the Australian textile industry internationally specifically to encourage exports for member companies. Member representatives are usually export managers who share a common purpose to increase their export customer base and sales.

The members engage in joint promotional activities, whilst maintaining their own independent entities. Each member transacts its own commercial activities including sales, delivery, collections and ongoing customer service.

As Export Managers, they found that a low profile of the Australian TCF industry in important international markets was a considerable impediment. Australia is a country internationally renowned for its high quality natural fibres such as wool and cotton. However, our mid-stream manufacturing industries are little known.

A significant breakthrough is the members' acknowledgment that the continuity of a high profile promotional programme builds credibility. There has been an turnaround in the member companies' perceptions and support of joint promotion activities. Only a few years ago the majority of the member companies were very suspicious in respect to sharing information and exhibiting at international events along side each other.

Members have targeted a number of countries with particular concentration on niche marketing. As marketing is an inexact discipline, results are always mixed. **However, the change in the global operating environment in the past seven years has been profound and should be considered by the Commission. Realizing ambitions to develop export markets is increasingly difficult as access to target markets is progressively more complex and often out of reach.**

There is no doubt that further reductions in import tariffs will have significant implications on the future growth strategies of firms reliant on domestic production. **However, while exports act as a natural foil against the attrition of the domestic industry, the value of these exports is not yet at a volume or value at which it can take the place of domestic customers.**

Fabrics Australia members argue that the transitional process will continue well past 2005.

**Summary of FAI recommendations:**

- *FAI recommends the continuation of an adequately funded SIP program beyond 2005.*
- *FAI recommends that adequate funds be made available for the Market Access Team to continue until 2010*
- *FAI recommends the introduction of a new export assistance program with appropriate program funding.*
- *FAI recommends that any further reductions of Australian import tariffs past 2005 be parallel with those of our trading partners.*

## 2.0: OVERVIEW

*“The TCF industries in Australia entered a period of major restructuring in 1987 when the Government announced a reduction in the level of support that it would provide to them. This change in policy was intended to encourage the industries to integrate more fully into the global TCF industry network. Significant restructuring was required before the Australian industries would be capable of being internationally competitive.” The TCF Future Strategies Committee.*

The textile industry is part of a broader industry sector, namely the Textile, Clothing and Footwear industry sector (TCF). The domestic textile industry includes mills that produce textile yarns made from natural and/or synthetic fibres, in addition to textile piece goods (meterage) produced on knitting or weaving machines. It also includes the process of dyeing these products in the various stages of production. These textile products are used for apparel, industrial and domestic applications.

The industry has been subject to considerable structural adjustment over the last few years in the face of increased international competition both domestically and overseas. The changes in the industry have not been unproblematic. The members of Fabrics Australia argue that the industry is in transition, a process that will continue well past 2005.

### **2.1: Competitive advantages:**

It has been identified that one of the segments of the TCF sector where Australia is competitive on quality and price is the textile area, from early stage processing through to yam and fabric production. This competitiveness stems from the high level of capital intensity required in the production of yams and fabrics, which minimises the effect of labour on product cost. To achieve appropriate sales volumes to support these equipment purchases, Australian companies must enter world markets. It is argued that increased direct exports from Australia will improve our industry's competitive base and increase the level of value adding locally.

Australia is a country internationally renowned for its high quality natural fibres such as wool and cotton. The Australian textile sector produces a wide variety of high quality yams and fabrics but is not very well known by international textile procurers. The TCFL Action Agenda Discussion Paper notes: *“7.3.1: The constructive approach for Australia is to become a major textile producer whose strength is based on the efficient provision of high quality products for which there is world demand.”*

Niche marketing is an important pre requisite for developing new markets. Indeed, niche markets and niche marketing is a strength that Australian industry is encouraged to capitalize on. There are often just a few companies in such a

niche. For example, the “Fire & Safety Exhibition” which is staged in Singapore is a forum that should be targeted to demonstrate Australian capabilities in protective apparel and textiles.

## **2.2: Export performance:**

*“The TCF industry is internationally oriented to a greater extent than ever before in terms of competing with imports and exporting. In essence, Australia’s share of international TCF exports has more than doubled over the 1990s to 22%. Compared with 1991, this is a substantial improvement. However, the Board believes that our optimum global position has yet to be realised and that there is scope for further expansion.” (TCFL Action Agenda Paper).*

*A recent report undertaken by TFIA states: “The global international trade in textiles and clothing grew by 95% between 1989 and 2000 from just over US\$183 billion to more than US\$356 billion. During the Asian crisis of 1998 and 1999 the market levelled only to pick up again during 2000. Trade in clothing has expanded more rapidly than textiles, up 115%, accounting for 56% of the total trade. Developed countries traditionally produced for domestic markets, ..... international trade in textiles and apparel is increasingly produced in countries other than those in which they are purchased.*

*In current prices, Australia’s textile exports increased from just over A\$210 million in 1991 to more than A\$613 million in 1998 before falling slightly over the past three years to A\$600 million. A significant part of the growth to 1998 is attributable to increased exports of “flat woven fabrics” and yarns manufactured predominantly from cotton. Exports of these two product categories increased by over 340% from A\$67 million in 1991 to just under A\$300 million in 1998. While these exports fell back to A\$227 million by 2001, exports of knitted fabrics (now 11% of total textile exports), textile floor coverings and other textile products continue to rise. Within the “other” textiles sector, exports of technical textiles, felts and nonwovens and towels have all shown significant growth.*

*..... The increase in textile exports was due mainly to sales to developing countries. Sales rose by A\$250 million of which annual sales to Fiji reached A\$100 million from 1996/97 through to 1998/99. This business has not been sustained since the recent termination of the Import Credit Scheme. Hong Kong is the major developing country destination after Fiji.”*

The following charts numbered 1 and 2, demonstrate the above increases in export of Australian textiles by product and destination.

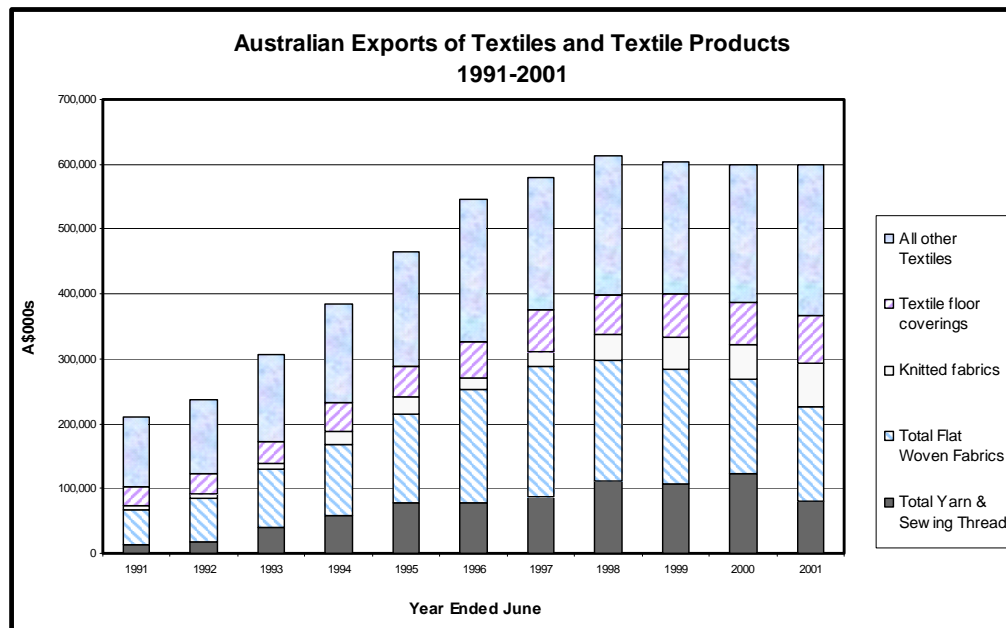


Chart 1: Source: ABS and TFIA Business Services



Chart 2: Source: ABS and TFIA Business Services



### 3.0: FABRICS AUSTRALIA INC.

Fabrics Australia is an Austrade initiative that was developed in 1995 to address a recommendation made by the TCF Future Strategies Committee. It is a collective promotional body for the Australian textile industry. Membership consists of textile companies, all of which share an objective to market the capabilities and merits of the Australian textile industry internationally specifically to encourage exports for member companies. Member representatives are usually export managers who share a common purpose to increase their export customer base and sales.

The members engage in joint promotional activities, whilst maintaining their own independent entities. Each member transacts its own commercial activities including sales, delivery, collections and ongoing customer service.

Whilst the network was formed some seven years ago, the association was subsequently formalised by incorporating through the Office of Fair Trading and Business Affairs in 1998. It is industry driven and managed and, to a large degree, industry funded. The articles of association state that *“the purposes for which the incorporated association is established are: -*

- (1) To promote the capabilities of the Australian textile industry within Australia and internationally*
- (2) To profile Australian textiles in international markets*
- (3) To encourage export sales of Australian textiles*
- (4) To undertake research into similar trade promotion organisations around the world*

*To do all such other things as are conducive or incidental to the attainment of the above purposes or any of them”.*

The primary objective of FAI is to encourage and thus increase the sales of Australian textiles. The strategy is to profile Australian textiles in lucrative international markets. The key messages we are communicating to these markets, is that the Australian textile industry produces high quality, high tech innovative textiles.

Albeit limited, the membership base of FAI is supportive and committed. Current members embrace product sectors of apparel textiles, technical textiles, domestic textiles and yarn. Members employ around 2,000 personnel.

#### **3.1: Innovative approach:**

Australian manufacturing industries have historically viewed collective marketing with distrust. The group has had to overcome the industry's natural suspicion of working closely with perceived domestic competitors. The concept members have embraced is simply: “Domestic competitors yet international collaborators”.

Fabrics Australia Inc. is modeled on successful European textile marketing associations, many of which are documented in the Best Practice market research document (which can be supplied on request.)

### **3.2: Strategic advantages:**

Australia is amongst the world's best designers and producers of specialty performance and technical textiles, which is undeniably the growth area in international textile industry. Consumers are demanding more from their apparel than they have in the past. The growth of apparel ranges over the full gamut of sporting disciplines has superseded the growth of the global fashion apparel market. International trade fairs such as the PGA Show in Orlando, Florida are increasingly attracting more visitors looking for unique and innovative products.

The FAI members have sustainable competitive advantages in the following areas:

- High quality
- High level of production expertise
- Production flexibility
- Innovation in raw material processing, yarn and fabrics development, design, quality control and dyeing & finishing techniques.

Additionally, the textile manufacturing sector has considerable opportunities to value add and, thus, capitalise on Australian natural fibres in wool and cotton.

### **3.3: Past activities and events**

Activities and events undertaken by Fabrics Australia are initiated by the members. The group has developed a brand image that is designed to capitalize on Australia's strategic advantage in natural raw materials and the fabrics made from both wool and cotton. Past activities and events include:

- Initial market research into the opportunities that exist for Australian textiles in North America
- Group exhibit at the LA. Inter. Textile Exhibition 1999
- Group exhibit at Interstoff Asia, Hong Kong, 1996, 1997, 1998, 1999
- Group exhibit at Techtextil, Atlanta, Georgia, USA, 2000
- Group exhibit at IFAI expo, Nashville USA, 2001
- Group exhibit at Techtextil, Atlanta, Georgia, USA, 2000
- Group exhibit at Texworld, Paris, France, 2001 and 2002
- Group exhibit at IFAI expo, Charlotte USA 2002
- Research into Best Practice marketing methodologies by European industry bodies
- Market research into garment manufacturers on the West Coast of US

- Market research into Mail Order catalogues in the US
- Development of a logo and brand image
- Development of a promotional video, Internet site, CD ROM and signage for exhibitions
- Ongoing compilation of a comprehensive international list of garment industry contacts.
- A direct presentation on the capabilities of the member companies to the Marks & Spencer specialist buyer.
- A direct presentation on the capabilities of the member companies to the House of Fraser specialist buyer.
- Editorial on member companies in the selected industry magazines

▪ ***Exhibitions:***

International exhibitions provide a very effective forum through which to profile the products and capabilities of the Australian textile industry. Albeit expensive, trade exhibitions are a potent forum through which to establish credibility in international markets. Indeed as the Export Manager for Sheridan Pty Ltd stated: *"It's not that we must be seen at international exhibitions, it's that we can't afford not to be seen!"*

By way of example, this year's HEIMTEXTIL exhibition for interior/household textiles attracted over 3,268 exhibitors from 67 countries and 89,500 trade visitors from 123 countries

Having now participated at Interstoff Asia in Hong Kong for four consecutive years international buyers were beginning to seek out Australian textile companies. Major buyers such as Gottex, Polo Ralph Lauren, Sara Lee International and Marks & Spencer made time in their busy schedules to approach and meet with Australian companies.

Furthermore, exhibiting at an international event such as Techtextil validates a company's credibility, encourages the establishment of business and customer relationships and furthers existing ones. The associated symposiums and fellow exhibitors are an added benefit as all the delegates maintained that they learn a lot about current industry trends and are able to source cheaper raw materials for selected items.

Quote from an unsolicited Email: *"So far, every trade show we have been to as part of the Fabrics Australia group has yielded at least a few customers each time. It normally has taken up to a year after the show to see the results but they are definitely there". Mr. Daniel Leipnik, Specialty Coatings.*

### **3.4: Best Practice Research Findings:**

The concept of Fabrics Australia is not new. There are many such advocacy/market development units in Europe, Asia and the Americas. In 1997, FAI entered the Department of Science, Industry and Tourism's Best Practice Program with the view to implementing best practice methodologies cited in successful European textile promotional bodies. The purpose of the study was to identify best practice promotional methodologies used by leading European Textile Associations – with a view to implementing those most successful strategies into Fabrics Australia's international promotional program. The research covered seven European textile promotional bodies (Associations).

Management structure and style of operating were cited as critical success factors. A strong relationship with government was critical to the wider industry development agenda. The acceptance that companies will 'move in and out' of associations according to where they sit on the export learning curve and that services needed to be tailored to 'old hands' as well as 'new kids on the block' is also important.

In most Best Practice organisations marketing strategies operate at two levels: firstly, broader based awareness programs and, secondly, at the commercial level. Exhibitions continue to be very important promotional vehicles. The cost of these events and company participation is always funded by Government development agencies. Promotional tools are very sophisticated and comprehensive. Best practice organisations update directories, both CD-ROM and hard copy formats, on an annual basis. Strong imaging underlines positioning strategies and branding, and quality materials assist in establishing a strong presence in the international marketplace.

In all instances, these organization enjoyed considerable financial support for their marketing initiatives from Government.

### **3.5 Market research into the preferred international showcase:**

Research undertaken by FAI during 1998 concluded that the international market place has a high subliminal knowledge of the Australian textile industry and its capabilities. However, the industry is not visible or readily accessible through traditional marketing events such as international trade shows.

In order to maximise its marketing budget, FAI conducted research to determine the most appropriate and opportune events for its member companies. The sample included 211 textile and garment industry representatives from 27 countries. Of the sample, over 79% knew that Australia produced apparel textiles, whereas only 35% of the sample had ever used Australian fabrics. The same 35% had actively sourced the product directly from the mills.

The tyranny of distance again appears as a major impediment to the industry's universal appeal with only 16% of the sample having taken the time and expense to travel to Australia.

Product quality was well regarded by a selected few. Forty eight percent of the sample agreed that Australia produced textile products that "are equal to the best in the world". Low visibility in the international market place however violated the industry's credibility.

When questioned on the preferred method of introduction, 83% responded by way of a trade show in their own country. A staggering 98% of those researched were enthusiastic to source a range of products and 89% requisitioned more information on the industry, the companies and products within it.

The people within the international textile and garment industry are well traveled and cosmopolitan by nature. They are accepting of a diverse market place and adept at global sourcing. The country of origin of a product is no longer relevant, they just don't want to work too hard to find it.

The research concludes that the international market place has a high subliminal knowledge of the Australian textile industry and its capabilities; however the industry is not visible or readily accessible through traditional international marketing events such as trade shows.

### **3.6: Results to date:**

Fabrics Australia member's export earnings have increased considerably since formation. In 1999/2000 the group's collective exports were \$149 million which represents A\$100 million worth of growth from A\$49 million in 1994/95. Participation in the international exhibitions, high quality promotional tools and excellent public relations have resulted in quality international buyer contacts, many of which are communicating directly with the member companies. However, some of the long-term exporters have reported decreased export earnings over the last two years. The cessation of the Market Development Program (refer section 5.1) and the void it left in the FAI marketing schedule will see a further drop off in offshore sales.

Over the last seven years, there was a considerable change in members approach to offshore marketing and their product ranges. Mainstream products produced for the domestic market are often unsuitable offshore. A considerable amount of time, effort and money has been invested developing appropriate product ranges that capitalize on Australia's strength in natural fibers and athletic and beach culture images. The member companies are attempting to attract business with greater margins.

Albeit expensive, the results of a concerted, well managed international promotional program on behalf of the Australian textile industry cannot be underestimated. International customers consume greater quantities than that of the domestic industry and thus orders are considerably larger. In simple terms, an order to supply fabric for one basic garment such as a pant or skirt for Marks & Spencer would be approximately 200,000 to 500,000 metres. An opportunity to supply upholstery for theatre seats to a chain of Asian cinemas would equate to around 50,000 metres. The supply of towels to Hotels in the Middle East would be around 5,000 units. The challenge, of course, is for the industry to gain credibility in order to be recognised as a supplier of quality products.

Considering the organisations shoestring, no frills budget and management structure, the growth in export earnings is a considerable return on members' commitments and the Government grants awarded over the years.

### **3.7: Target segments**

As mentioned previously, the FAI strategy is to market Australian apparel, home textiles and yarn to key markets around the world.

#### **▪ *Apparel Textiles***

Fashion apparel is often perceived as the traditional consumer of textiles. However, the list below details other significant sectors of apparel textile production, most of which requires considerable expertise and state-of-the-art equipment to produce.

The product groups cover the gamut of circular and flat bed knits and wovens in synthetics, wool, cotton and other blends. A considerable amount of the product listed below uses Australian yarn.

<b>The 7 main application areas of apparel textiles</b>	
Fashion apparel	High fashion knits and wovens
Intimate apparel	Fine gauge knitted cottons, wool and synthetics
Active sportswear	Includes intelligent textiles for stretch and moisture management
Protective apparel	Waterproof, breathable textiles
Outerwear	General textiles including suitings and denims
Corporate apparel	General textiles for corporate uniforms
Industrial/safety apparel	Intense wear and high visible textiles

▪ **Home textiles**

The Australian home textile industry evolved from its natural resources in wool and cotton. There has been significant growth in the production capabilities in these areas over the last few years. An additional quality such as fire retardation is a competitive advantage in the upholstery market.

The 5 main application areas of home textiles	
Sheets	For both domestic and commercial uses
Upholstery	For both domestic and commercial furniture including airlines seats
Towels	For both domestic and commercial end uses
Table linen	For both domestic and commercial end uses
Curtainina	For both domestic and commercial end uses

▪ **Yarn**

The Australian spinning industry is capital intensive and dominated by a few companies. Australian cotton and wool premium yarns have the advantage of high quality raw materials over competing nations.

The 3 main application areas of yarn	
Cotton	Raw and coloured yarns
Wool	Knitting and worsted yarns raw & coloured
Blends	Wool, cotton and specialty fibre

### **3.8: Target markets:**

The target markets (listed alphabetically) are as follows:

- China
- Europe (France & Germany)
- Hong Kong
- North America
- The Middle East
- United Kingdom

Each market has been selected with a specific product group in mind. In a perfect world, each of the above markets enjoy certain characteristics and opportunities, including size, scope and trends.

#### **4.0: THE STRATEGIC INVESTMENT PROGRAM (SIP)**

The Textile, Clothing and Footwear Strategic Investment Program (SIP) is designed to foster the development of sustainable, competitive TCF industries in Australia during the transition to a more competitive trading environment post-2005. The Scheme provides incentives in the form of grants to promote investment, innovation and value adding in the Australian TCF industries.

The understanding of Fabrics Australia members is that the scheme was developed to assist industry in the process of adjusting to lower domestic import tariffs. However, to date, this process has been characterised solely by market forces and a torrent of imports. Any increases in company investment in new plant and equipment and increased levels of research and development and product development are minimal as the scheme has only been in operation for two years.

The process of liberalization and the adjustment required by industry are slow and painful. Change does not happen overnight. Whilst the intention of the scheme is honorable, the returns of new investments in production, R&D and product development threatens to be eroded and outpaced by imports.

There is no doubt that further reductions in import tariffs will have significant implications on the future growth strategies of firms reliant on domestic production. However, while exports act as a natural foil against the attrition of the domestic industry, the value of these exports is not yet at a volume or value at which it can take the place of domestic customers.

Fabrics Australia members argue that the transitional process will continue well past 2005. To this end.....

***FAI recommends the continuation of an adequately funded SIP program beyond 2005.***

***FAI recommends that the post 2005 SIP program include export assistance.***



## 5.0: MARKET ACCESS

As mentioned previously in this document, FAI was formed some seven years ago. Members have targeted a number of countries with particular concentration on niche marketing. As marketing is an inexact discipline, results are always mixed. However, the change in the global operating environment in the past seven years has been profound and should be considered by the Commission.

The members of Fabrics Australia assumed a global perspective many years ago. They inherently understand the benefits, process and need to export. Many have established dedicated shipping departments and export managers. However, realizing their ambitions is increasingly difficult as access to target markets is progressively more complex and often out of reach.

The rapid expansions of regional trading arrangements and forums have dramatically shifted trade flow in textile products. The "Market Access Industry Participation Programme" paper published by the Textile & Fashion Industry Australia (TFIA) in June 2002 states: *"From 1992 to mid-1998, a total of 89 new bilateral or multilateral trade agreements were orchestrated compared to five new agreements in the previous six-year period.....Whilst they were originally welcomed as positive measures and a process through which to legitimise aid to developing countries through trade, trade pacts are often an impediment for Australian TCFL manufacturers as many are developed specifically as NTMs in order to control trade in the absence of quotas."*

Coupled with the Outward Processing Trade programs (OPTs) that provide preferential treatment to apparel products assembled in developing countries, these regional trading arrangements and forums have contributed significantly to the changing pattern of global TCFL trade. This is often at the exclusion of Australian products in favour of products from countries with strategic alliances in developing nations.

The two largest trade agreements are the North American Free Trade Agreement (NAFTA) and the European Union (EU). In the recent paper "Promises Unkept", the American Textile Manufacturers Institute (ATMI) attributes almost all of the U.S. textile export growth between 1994 and 2000 to the NAFTA and existing special trading arrangements with the countries of the Caribbean Basin Initiative (CBI).

In surveying the Australian textile industry for this paper, a number of companies recorded high duties in Asia. This response reinforced the findings of the "Market Access Industry Participation Programme" paper published by the Textile & Fashion Industry Australia (TFIA) in June 2002. The paper states as follows:

*“Manufacturers in the Australian apparel textile industry have reported high tariffs in a number of countries. By way of example, fabric containing 85 % or more by weight of wool or of fine animal hair, under 200 g/m2 (H.S. code 5112 11) attracts tariffs of 40% upon entering Vietnam and Thailand, 30% upon entering Pakistan and India, 24% upon entering China and 22% upon entering South Africa.*

*Woven cotton fabric or denim (H.S. code 5209 42) attracts tariffs of 40% upon entering Vietnam, 30% upon entering Pakistan and India, 23% upon entering Mexico, 27% upon entering Israel, 22% upon entering South Africa and 20% upon entering Malaysia.*

*A circular knitted cotton containing 5% or more of elastomeric yarn (H.S. code 600230) attracts tariffs of 80% upon entering Mauritius, 40% upon entering Vietnam, 35% upon entering India, 30% upon entering Pakistan, 27.4% upon entering Israel, 23% upon entering Mexico, 22% upon entering China, 20% upon entering South Africa, Thailand and Malaysia and 15.7% upon entering Japan.*

*Manufacturers in the Australian blanket industry have reported high tariffs in a number of countries. By way of example, blankets (other than electric blankets) and travelling rugs, of wool or of fine animal hair (H.S. code 6301 20) attract tariffs of 50% upon entering Vietnam, 37% upon entering South Africa, 36% upon entering Israel, 27.5% upon entering Malaysia, 25% upon entering China, 20% upon entering Indonesia and 10% upon entering the U.S.*

*Manufacturers in the Australian yarn industry have reported high tariffs in a number of countries for both cotton and woollen yarns. By way of example, yarn of combed wool, (not for retail sale) containing 85% or more by weight of wool, (worsted, H.S. code 5107 10) attracts a tariff of 38% upon entering Turkey, 20% upon entering India, South Africa, Vietnam and China and 18% upon entering Mexico.*

*A single cotton yarn of uncombed fibres (H.S. code 5206 11) also attracts tariffs of 20% upon entering Vietnam and India, 18% upon entering Mexico, 10% upon entering China, Thailand, Malaysia and Indonesia, 9.7% upon entering the U.S. and 9% upon entering Canada.*

*The North American Free Trade Agreement is essentially a “fibre forward” agreement that allows duty free access into the U.S. for garments produced from U.S. components. Garments made from yarn and/or textiles produced from non U.S. fibre are subject to the 18-30% duties that are then carried forward upon entering the U.S. thereby imposing disincentive to non U.S. components.”*

The members of FAI agree with the above report which states: *“With the scheduled progressive removal of international tariff barriers the Australian*

*Government must ensure that Australia's trading partners do not seek to replace tariff barriers with equally restrictive non-tariff barriers (NTM) to trade.*

*Indeed, the main issue for Australian products in relation to trade liberalisation in the next decade is ensuring that Australia's remaining tariff barriers are only adjusted in acknowledgment of, and parallel with, international reductions of our trading partners' trade control measures (both tariff and non-tariff barriers) and entering into beneficial preferential trade agreements with markets larger than our own. "*

▪ ***The Market Access Team***

In June 1998 the DFAT established a sector based "Market Access Team" for the TCFL industries. The role of the team is to address market access issues facing exporters including *"tariff and non-tariff barriers faced by exporters and other international market arrangements impacting on industry"* and to *"advocate the removal of tariff and non-tariff barriers identified by companies or industry associations and will assist, as required, to facilitate trade."*

To date, Fabrics Australia has had little contact with the Market Access Team. It is anticipated that the team will be a conduit through which members can access information on trade trends and market access issues.

There is no doubt that efforts of the Market Access team could create a more positive trading environment for FAI member companies. To this end, .....

***FAI recommends that adequate funds be made available for the Market Access Team to continue until 2010***

## **6.0: MARKET DEVELOPMENT**

One of the major impediments firms experience in realising their export potential is the cost associated with developing their distribution networks and general marketing activities. An overseas market entry will incur marketing costs, including promotional brochures and packaging design and regular market visits. Additional costs may include the service of experts in fields such as market research, legal advice and translations, warehousing, sampling, specification development and product testing. Irrespective of the methods chosen to enter an overseas market the journey is unique to every company; it can be lengthy and costly.

The tyranny of distance is an additional impediment to cultivating business and relationships in Europe and North America. By way of example, exhibitions continue to be the acknowledged forum through which to establish credibility and gain customers. However such forums are expensive and often financially out of reach for small to medium size enterprises. Fabrics Australia argues that investment of promotional expenditure will provide a considerable return to the textile manufacturing sector, which will offset the imminent loss of business to imports and thus save and/or create jobs.

As mentioned previously, the Best Practice research undertaken by FAI revealed that European, Asian and American textile industry associations enjoyed considerable government support in profiling their industries at international forums.

The termination of the Market Development Program, outlined in the following section, will further disadvantage Australian TCF manufacturers in the face of international competition.

### **6.1: The Market Development Program:**

Announced by the Government in July 1998, the Market Development Program (MDP) was a Commonwealth grant scheme and one aspect of the suite of measures of the post 2000 arrangements for Australia's TCFL industry. The MDP was directed at developing and implementing strategies to increase the competitive capabilities of the Australian TCFL industry in a global market environment.

After operating for one year, the Government withdrew the MDP program in the last budget that was announced on May 14<sup>th</sup> 2002.

Fabrics Australia applied for, and received, a number of grants to implement market development projects under the first MDP round of funding. These projects were collective activities that were open to the wider Australian textile

industry. Having run for just over a year, the results of the MDP projects were not apparent when the Government withdrew the program.

In light of the assistance awarded to the TCFL industries in competing countries, the discontinuation of the MDP will further disadvantage Australian TCFL manufacturers in the face of international competition. The discontinuation of the program will also render the ten recommendations for Market Development identified in the TCFL Action Agenda unattainable.

The decision to discontinue of the MDP scheme was also made with no reference or notice to industry. Fabrics Australia's and its members' plans for 2002/03 market development activities stalled as a result. Indeed, the prerequisites to build a reputation in the global trading environment are consistency and reliability. Both of these fundamentals were abandoned as a result.

Indeed, the Review of the TCF industries undertaken by Werner International in 1994 states: *"Additional specialized assistance in export promotion is needed. Current arrangements are not reaching those they are designed to help."* Fabrics Australia members therefore argue for the reintroduction of an export assistance program.

***FAI recommends the introduction of a new export assistance program with appropriate program.***

#### **6.2: Austrade ([www.austrade.gov.au](http://www.austrade.gov.au)):**

Austrade is the Australian Trade Commission - the federal government's export and investment facilitation agency. In simple terms, and to use its mission statement, Austrade's role is to *"Help Australians win export business and generate inward and outward investment"*

Fabrics Australia has enjoyed a good working relationship with selected Austrade offices around the world. Indeed, Austrade Melbourne formed FAI in 1995 to address a recommendation made by the TCF Future Strategies Committee. Fabrics Australia has commissioned a number of studies with Austrade.

Fabrics Australia's website is linked to the Austrade website. Austrade has been used as a service provider for international exhibitions and to undertake market research in various markets.

The members of FAI have found that Austrade is not as pro-active as they would wish. Despite being located in target markets, it is rare for Austrade to forward opportunities and/or contacts.

## 7.0: DOMESTIC TARIFFS

There is no doubt that further reductions in import tariffs will have significant implications on the future growth strategies of firms reliant on domestic production. However, while exports act as a natural foil against the attrition of the domestic industry, the value of these exports are not yet at a volume or value at which they can take the place of domestic customers.

Evaluation of the level of tariffs to apply post 2005 must be considered in parallel with the high levels of support (including tariff and non-tariff measures) and product accessibility of other regional economies. Countries within the Asia region, which accounts for a large share of imports of TCF products into Australia, should be examined closely. Wholesale access to the Australian market at the expense of the Australian textile industry is a high price to pay and should not be an option.

The principles of the WTO's Agreement on Textiles and Clothing (ATC) are an attempt by governments to make the global business environment stable and predictable thereby assisting industries extend their capabilities beyond their borders. The members of FAI argue that the only predictable outcome of further reductions in import tariffs will be continued attrition of the domestic apparel manufacturing industry.

To this end, FAI acknowledges the scheduled tariff reductions in 2005, however it opposes any further reductions after this date.

***FAI recommends that any further reductions of Australian import tariffs past 2005 be parallel with those of our trading partners.***