

TABLE OF CONTENTS

SNAPSHOT	2
INTRODUCTION.....	3
KEY INDUSTRY ISSUES	5
INDUSTRY PERFORMANCE AND PROSPECTS.....	11
ROLE OF THE INDUSTRY IN THE ECONOMY	18
THE REGIONAL FACTOR	25
GLOBAL TRENDS AND INFLUENCES.....	27
RESPONSES TO CHANGING GLOBAL AND LOCAL ENVIRONMENTS	32
THE GLOBAL POLICY ENVIRONMENT	38
OPPORTUNITIES AND CHALLENGES	42

ATTACHMENTS

Attachment A.....	Economic Modeling: Preliminary Report
Attachment B.....	Market Access Report

1. SNAPSHOT

Australia's textiles, clothing and footwear and fashion industries are on the cusp of a new period of growth and development. With fair and reasonable encouragement and assistance, the industry is gradually redefining itself with a combination of the strengths from traditional operations and the opportunities arising through a modern strategic industry based on innovation, export success and greater efficiency.

The industry has been through a difficult period of adjustment to tariff reform and overseas competition.

The industry continues with a substantial critical mass, providing community benefits including 80,000 jobs¹, industry sales of more than \$9 billion a year and new capital spending of \$200 million a year. Exports are growing rapidly, with TCF&L products contributing about \$3 billion to Australia's total exports. The industry represents approximately 10 per cent of all manufacturing establishments in Australia. This activity produces "feeder" benefits through other sections of the economy. For instance, it is estimated that each job in TCF&L creates 2.5 to 3 jobs in other sectors.

The industry provides substantial employment in regional and metropolitan areas, particularly for females. Much of the workforce is particularly difficult to redeploy in other sectors of the economy.

At national policy level in recent years, the parallel strategies of tariff reform and the Strategic Investment Program (SIP) have been critical to gradual adjustment and the emerging new directions of the industry. SIP has increased exports, stabilised employment and encouraged rapid growth in research and capital expenditure, leading to the development of successful niche products on the world markets. Many employers have significant research and development projects and capital works in the pipeline in expectation that SIP or equivalent measures would continue.

With further tariff cuts scheduled for 2005, the continuation and enhancement of SIP-type assistance is critical to maintaining the industry as a strategic asset of the national economy and to continue momentum of reform, which is emerging and potentially fragile. This submission includes recommendations on how SIP can be improved and better targeted to assist the reform process.

Australia is now one of the most open TCF markets in the world. The pace of overall global reform has slowed and the use of non-tariff barriers in overseas markets has complicated historical comparisons of tariff rates.

Australia should monitor market access arrangements and conduct a formal review before any tariff cuts post 2005. In any event, there should be no further cuts before 2010.

The two most important issues for the Australian industry are **certainty** and **fairness**. The TFIA submits that appropriate tariff arrangements and modified SIP-type schemes be put in place to the year 2015.

¹ ABS Labour Force Statistics, 2002

2. INTRODUCTION

The Council of Textile and Fashion Industries of Australia Limited (TFIA) is the peak industry body representing firms and organisations covering textile and clothing activities in Australia. This submission has been prepared after extensive consultation with all segments of the industry.

The Inquiry's terms of reference cover a wide range of issues. These, and associated questions raised specifically by the Commission, are dealt with throughout this document. This submission has been prepared as a quick reference for the Commission and other interested parties to highlight areas of the current and future assistance arrangements that are considered of major significance to the industry and will provide the platform to encourage the industry to adjust to a more viable and sustainable competitive position post-2005 in the interests of all stakeholders.

OPERATION OF CURRENT ARRANGEMENTS TO 2005

The commission notes that it "will not replicate much of the recent work (by the TFIA, the T.C.F.L Forum and others) examining the sector's recent performance and future prospects". Assessment of the future appropriate operating environment can best be assessed after some consideration of the operation of the current arrangements to 2005 with some broad descriptive material to place these comments in a current context as follows:

- Despite major changes over the past 10 years, the T.C.F sector is a very large and significant element of Australia's manufacturing industry. It directly employs approximately 80,000 people (labour force survey), has manufacturers' sales in excess of \$9 billion a year, including value adding of \$2.6 billion, and injects new capital spending in excess of \$200 million each year.
- The T.C.F. sector remains diverse and complex in its inter-relationships, with a myriad of activities covered by the traditional sectoral description of chapters 50-65 of the tariff, or manufacturing activities of ANZSIC 22.
- Approximately 10% of all manufacturing establishments in Australia are in the T.C.F. sector, with 60% of these 5,000 establishments being fashion and clothing firms, predominantly small to medium-sized businesses.
- Australian T.C.F. market access arrangements remain one of the most open in the developed world (with backloaded quota restraints still prevailing in the US and European clothing markets and the threat of safeguard measures beyond that), and as a result are vulnerable to the oversupply common to world trade in these products.
- The current assistance arrangements are characterised by the tariff pause through to 2005 (when prevailing rates will be reduced by 33% to 17.5%, 10%, 5% and free), and the operation of the SIP introduced, on July 1, 2000.

The TFIA strongly supports this dual approach of complementary positive assistance to encourage the ongoing development and repositioning of the Australian industry in a volatile and highly-managed world trade environment. The introduction of SIP benefits in many sectors of the industry has led to increased exports, stabilised and expanded jobs, particularly in regional Australia, and encouraged the rapid expansion of expenditure on capital works and research and development. It has also supported the introduction of niche products, particularly in the fashion industry, some of which are world leaders. The SIP program will be a key element in the re-positioning of some sections of the industry over the next few years. The TFIA supports a significant period of tariff stability before digesting further major tariff step-downs. It supports the operation of a SIP-style program and believes improvements to the current program will enable SIP to be the long-term vehicle for positive encouragement for industry change in the post-2005 period.

3. KEY INDUSTRY ISSUES

The TFIA consultation process has identified the following key issues:

1. Future Tariff Arrangements
2. The TCF Strategic Investment Program
3. Market Access for Australian Products
4. Education and Training
5. On Cost to Manufacturing
6. Expanded Overseas Assembly Provisions Scheme
7. Workplace Relations Matters
8. Anti-Dumping Measures

There are two attachments to this submission:

- A) **Economic Modeling.** The TFIA has engaged ACIL-Tasman to produce some economic modeling to ensure that we have an independent source of input into the outcomes of policy initiatives. This attachment is a preliminary report.
- B) **Market Access.** A copy of the Market Access Industry Participation study report is included. Access to and development of new markets is a core element of future growth and development of the industry, and therefore vital for formulating the appropriate domestic policy setting.

3.1 THE FUTURE TARIFF ARRANGEMENTS

Australia is well ahead of the major TCF trading nations on tariff reform, let alone other market access issues. Yet, the Government is imposing a further 33% cut on 1 January 2005.

The industry submits that the tariff rates be maintained at the 1 January 2005 level until 1 January 2010. Further reforms out to 2015 should be dependent on a review based on progress made in international market access reforms of a tariff and non-tariff nature. The TFIA believes that the relative rate in Australia compared to other economies must not be widened. There is a need for constant vigilance by the industry and Government to ensure that the various measures introduced by our trading partners are not, in effect, further barriers to market access.

3.2 THE TCF STRATEGIC INVESTMENT PROGRAM

The TFIA strongly supports the continuation of the encouragement and assistance provided by SIP. Already, SIP has been applied by many Australian firms with very significant outcomes on strategic directions and longer-term viability.

CASE STUDY 1

“Our real growth areas can be tracked back to SIP. Without it, we would not be doing all of our research and development and be able to fast-track products. With SIP, you have to be a doer.” – Mr Brian Rush, managing director of Australian Defence Apparel.

ADA, which now exports about 20% of its sales to Pakistan, Thailand, Singapore, Vietnam and New Guinea, has the world-wide patent on a just-developed ballistic ceramic plate. The firm, the largest manufacturer in Bendigo, is in discussion with the London police and UK and US Defence Forces on potential long-term, multi-million dollar contracts on the sale of the plate.

CASE STUDY 2

Perth-based Canning Vale Weaving Mills has developed some of the most innovative products in the towel industry. It supplies icon brands including Sheridan, Martex and Country Road and supplies the top two towel ranges for the leading departmental stores, Bloomingdales and Macys, in the United States. Export sales are now worth more than \$10 million a year and Canning Vale is now the name behind some of the very best quality towels in the world.

“There are a wide range of innovative ideas which we are currently working on and with the assistance of SIP, we will continue to develop them into a commercially viable product. SIP has directly enabled Canning Vale to retain its sales position and ensure that our market share is poised for growth with Australian made, innovative product.” – Mr Frank Prainito, Chief Executive Officer of Canning Vale.

CASE STUDY 3

The Specialty Group's work force has risen by one third since 2001. It plans investment of \$1.2 million in plant and equipment by the end of 2003 and spends 10 per cent of its sales on research and development. It makes the high technology jacket, the Windjammer, for the Australian Defence Department. The jacket is made from wool fleece, rather than laminated wool, and is knitted, windproof and waterproof. Previously, materials were imported for the jacket.

“It allows us to buy 100% Australian wool processed from the sheep's back to the soldier's back.” Mr Peter Leipnik, managing director of the Specialty Group, based in Moorabbin, Victoria.

“SIP has encouraged and supported our investment in plant and equipment and research and development innovation. The direct assistance has allowed us to invest in those areas and through that investment allowed us to grow our business” – Mr Peter Leipnik.

The SIP Scheme has been in operation for two years. While SIP has had teething problems and is still evolving, indications are that in recent times it is becoming more effective. However, there is clearly need for improvement of SIP in some sections of the industry.

As the industry continues to face the task of reform in international trade, the direct assistance measures must remain in place.

SIP has been and continues to be a major element in ensuring the Australian industry is as up-to-date as anywhere in the global TCF environment with the most modern and efficient manufacturing, design and distribution facilities and equipment. However, there is a general recognition in the industry that the current rules and format of the SIP limit the access and encouragement of activities central to the long-term viability of many in the clothing and fashion industry. As a result the current SIP has some imbalances that need to be addressed through a complete review of the “non-visual” innovation definition of SIP and how it relates to the clothing and fashion sector; and recognition that encouragement of value added should focus on the activities that are the drivers for long-term viability of this sector. These considerations need careful evaluation and TFIA is committed to making further comment on these issues over the coming months.

Over the coming weeks and months, the TFIA will develop specific concepts to improve this important scheme. One option could be the introduction of an ACIS production-related grant type and limiting these by application processes.

The TFIA submits that the SIP Scheme is an invaluable encouragement for the prospects of the industry when linked with appropriate tariff policy. The Scheme must be maintained and at the current annual funding levels over the period 2005 to 2015. The TFIA recommends:

- Extending the SIP Scheme for a further 10 years from 2005 to 2015 at the current annual funding levels;
- Consideration be given to the needs of smaller to medium-sized business operators and how they can be encouraged to instill activities and processes assisted by SIP without damaging the overall value to existing SIP clients;
- Consideration be given to a separate funding mechanism that is by application and applies in a similar manner to the ACIS funding for earning of duty credits based on production;
- The innovation test should be reviewed.

3.3 MARKET ACCESS AND MARKET DEVELOPMENT FOR AUSTRALIAN PRODUCTS

Attachment B to this report is a copy of a research paper on market access issues facing the TCF sector as we try to grow our international presence. Achieving this international expansion is not an easy task, nor is it expected to be. However, it is becoming clear that the barriers to access in overseas markets are extensive on any measure and extremely high when compared to the Australian access rules. The more prohibitive barriers could indeed be the non-tariff barriers, which are described at this stage in as much detail as was available at the time of this submission.

The industry, through the TCF&L Action Agenda Forum, is now undertaking a further examination of these matters. We will provide the Commission with a brief on the findings in May when our research is complete.

It is clear at this stage, though, that there are activities undertaken by many of the more significant suppliers of TCF products that are contrary to Australia’s approach to opening up market access. For example, in order to meet tariff reform agendas imposed as requirements for membership of

WTO, tariff rates on imported product lines may be significantly reduced. However, this action is often off-set by counteraction increasing luxury goods taxes on imported goods only.

The TFIA submits that it should be acknowledged that the negotiations towards multilateral liberalisation of trade barriers scheduled from 1 January 2005, the anticipated Australia-USA Free Trade Agreement and the adjustment to the Australian tariff and direct assistance arrangements also on 1 January 2005 creates a rather complex adjustment scenario to consider in the real commercial environment.

It is difficult for TCF businesses to plan for competition in the global market place when our trading partners have not yet committed to further trade reform. Further, many of the existing “reforms” in the international environment have been back-loaded or deferred, along with the replacement of the more effective but obvious non-tariff barriers with equally protective “acceptable” trade restricting measures. The industry is being asked today to accept that certain adjustments will be made on the basis of previous commitments to reform that have not delivered the expected market access gains.

There is also a need to examine the most appropriate method to continue to encourage the industry to concentrate on export market growth. The TFIA is aware of the sensitivities to the WTO requirements in these areas. However, both market access and market development need to be addressed, if we are to achieve the positive outcomes sought.

There is further comment on market access in Chapter 8 and Attachment B.

3.4 EDUCATION AND TRAINING

TCF is a complex and demanding sector when it comes to the human resources needed to operate a successful business. The industry needs a wide variety of skills and these skills are changing as the industry continues to position itself for value-adding along and across the supply chain. The TCF&L Forum recently commissioned a strategic review of the industry which addressed many of the education and training issues raised in the Action Agenda Report on the TCF&L industry.

One clear issue is that the national training programs focus on the delivering of a qualification to a person in a particular field, whereas often the real need is for specialist training or skills acquisition to meet the needs of a particular enterprise. There needs to be more flexibility based on enterprise-based improvements through tailored programs. The training must be driven by the demand, not the supply. The TFIA believes that a shift towards enterprise needs as opposed to packaged learning objectives would be a valuable and positive contribution.

Rather than repeat the findings and recommendations of the Forum in this document, we refer the Commission to the detail of that report on industry education and training needs and directions. Education and training are playing a continuing and important role in the industry's growth, while the concentration in terms of the type of training delivered is becoming much more complex. For example, as the manufacturing equipment becomes more advanced, so does the need for training and education in different or new aspects of the operating environment.

3.5 ON COST TO MANUFACTURING

This is one of the most neglected and impeding aspects to domestic manufacturing when considering the actual extent and reach of import competition to domestic production. The application of payroll tax, worker insurance premiums, environmental levies and penalty rates etc, are all significant on-costs to manufacturing. In addition, there are regional on-costs that are out of proportion to metropolitan levies for similar activities (e.g. environmental charges and fire services levies.)

The TFIA submits that the imposition of payroll tax on manufacturing activity is a disincentive to local employment and a further cost disability to employers. While payroll tax is levied by State Governments, it is also true that removal of the tax would improve our competitive position substantially.

The other on-costs to manufacturing are also mainly specific to local manufacturing in the Asia-Pacific region and need to be reined in to help companies compete fairly on both the export and domestic markets.

3.6 EXPANDED OVERSEAS ASSEMBLY PROVISIONS SCHEME

The TFIA believes that the involvement of the industry in this mechanism has been less than anticipated by the Government. One of the reasons is that the scheme was modeled on activities in the USA and the EU, where it has been very successful. But this success was due to the ability of the mechanism to bypass the very high barriers to entry that would otherwise apply, in particular the quota or quantitative restrictions on imports. The higher the barrier to entry, the more valuable the scheme. Hence in Australia, with relatively low duty rates and a very cheap close source of imports, the scheme's benefits need to be other than price-based. Improvements to the EOAP could, subject to closer policy analysis on a case-by-case basis, take the form of complete duty free entry where exported fabric is made from Australian yarns, as one example.

The other side of these areas of concessional arrangements concerns the policy by-laws, which are very complex. The TFIA will continue to address these matters through the course of the inquiry.

3.7 WORKPLACE RELATIONS MATTERS

The TFIA does not represent the industry on industrial relations issues, nor is it a respondent to the award. There are other organisations and individuals that fill this role. However, it would not be complete to consider the post-2005 environment without some brief mention of the industrial issues for this sector.

The industry on the whole has a co-operative and progressive relationship with employee representatives and encourages staff and employee involvement in the consultative committee arrangements in many workplaces. There are and always will be difference of opinion and the workplace negotiations will work through these issues. However, the general industry perspective is that as the external environment is changing, it is imperative that the appropriate adjustments be made at the enterprise level to strengthen the position of all participants. Flexibilities such as the use of external contractors are and always will be a requirement for the TCF sector, if for no other reason than for the difficult if not impossible task of measuring demand at any point in time.

The industry needs to ensure that it has a well-paid, motivated and appropriately skilled workforce. This will entail a significant mix of manufacturing and supplying alternatives ranging from full-time factory-based employees through to offsite casual and sub-contract labour.

The industry and the union continue to work closely to promote the aims and objectives of the Homeworkers Code of Practice.

3.8 ANTI-DUMPING MEASURES

There is ample evidence that many of the administrative requirements of anti-dumping are most suited to the concentrated end of the supply chain (e.g. yarns, fabrics, leather parts) whereas the real damage caused by dumping into the Australian market commences with the import of finished product. Dumping is an enormous problem not only for the domestic manufacturers but also for the more committed and long-term importers who, like local manufacturers, must reply to price points set by dumped exports.

The TFIA requests that the Government amend the Anti-Dumping legislation, particularly with products from countries in transition from centrally planned to market economies (eg. China), to ensure a commercially realistic outcome. The TFIA also requests that the Commission examine the introduction of a trigger price mechanism so that the Anti-Dumping provisions can be enacted on a safeguard basis while an inquiry is conducted. All too often, the sporadic dumping by a large number of unrelated parties all trading in similar products places the local manufacturer in an unenviable position in trying to reach the preliminary documentation tests for any anti-dumping inquiry.

Further, it has been and continues to be the TFIA view that the real rate of tariff reform is significantly greater than that indicated simply by the phasing of the tariff rate as the majority of imports in many categories are from countries that are clearly, in our view, dumping product. Hence, the tariff effect on the export price is less than anticipated had the export been at an undumped price.

4. PERFORMANCE AND PROSPECTS OF THE AUSTRALIAN TCF INDUSTRIES

4.1 INTRODUCTION

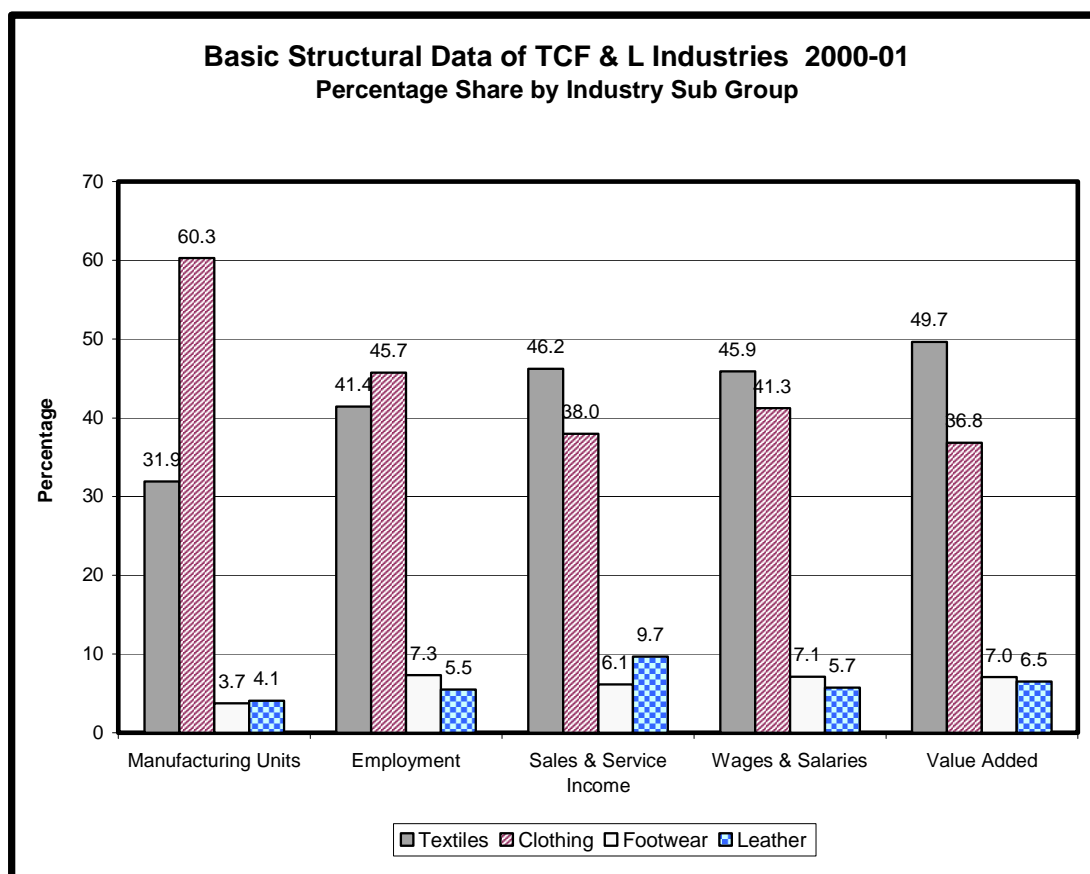
The Australian TCF&L industries are technology and design-oriented, high-value service and product providers to global consumer and industrial markets. The global TCF&L industries and market are among the largest and most dynamic of all economic activities and are engines of significant change in economic, social, cultural, political, design and technological capabilities.

The industries are an integral component of the Australian industrial, economic and social structure. They:

- add value to and generate greater economic benefit from Australia's abundant supplies of high quality, natural resources of wool, cotton, leather and also to innovative applications of man-made fibres
- build on IT and E-commerce applications such as bar-coding and scanning technologies in facilitating the introduction, extension and mastery of information and communication technologies
- facilitate new processes and business restructuring through integrating and managing extended supply chains
- develop, design, create and adapt new products for consumers, industries and technologies
- identify, analyse and develop new and different manufacturing processes to adapt new and existing technologies to the demands of a lean flexible manufacturing environment that operates without the benefits of scale production

BASIC STRUCTURAL DATA 2000-01

	Management Units No.	Employment 000s	Sales & service income \$m	Wages and Salaries \$m	Value Added \$m
Textiles	1564	23.9	4,210	804.6	1,282.7
Clothing	2958	26.4	3,461	723.6	951.4
Footwear	183	4.2	558	125.1	181.7
Leather	200	3.2	882	100.5	167.5
TCF&L	4905	57.8	9,111	1,753.9	2,583.3



Source: ABS

The Australian TCF&L market has become one of the most open and competitive in the world. Australia is very much a part of the global TCF&L industries, which are also undergoing dramatic changes.

To be able to participate in these engines of global economic, social, cultural and technological development, Australia has to continually renew the knowledge, technological and physical capabilities needed to participate at the leading edge of these developments. The ongoing development and profitable application of these skills, knowledge and capabilities is the issue facing the Australian TCF&L industries and the broader community today.

The Australian industries have undergone significant change over the past decade - resulting in certain sectors developing a more concentrated but more agile capability for producing higher-value added services and products. In other sectors, the evolution is towards a greater number of enterprises of much lesser scale. These changes have been accompanied by achievements in revitalised capabilities, technologies, skills and people.

Even with this significant shift over recent years, the industries remain significant direct employers and major consumers of a broad range of Australian raw materials. They are major customers for intermediate suppliers, and providers of trade, technical and professional services. The industry also promotes a vibrant retail sector by enabling the operation of just-in-time retailing operations and ensuring that there is a wide-ranging and flexible supply of high-demand and fashionable merchandise for consumers. The industries also provide vitality and sustainability for Australian regional areas, particularly by providing significant employment for the female work force where job opportunities in some rural areas are limited and face potential further reduction due to the twin natural disasters of drought and flood in recent years. Through its investment in the physical, intellectual and technological requirements associated with the various facets of particular activities, the industries embody the application of advanced technologies developed in Australia and throughout the world and facilitate the development and extension of the human skills needed to support, develop and extend these technologies.

The industries and its designers' efforts in overseas markets significantly affect Australia's reputation as an advanced, technologically adept, highly-skilled producer and designer of goods, including niche products in the apparel, bathroom, general retailing and defence sectors. These efforts and exports are not only undertaken in some of the most competitive industries in the world, but are made by a broad-based local industry.

While the dynamic and competitive nature of the industry means that the risks associated with investing in leading-edge capital, technologies and designs by individual firms has increased, there is now a greater role for the Government to further encourage these strategic activities.

The industries are major creators of high-value added, elaborately transformed manufacturers. They are also major consumers and developers of advanced technological and creative skills. The industries have extensive design, engineering and manufacturing facilities directly employing nearly 80,000 people. They have responded strongly and positively to the challenges inherent in the Government's TCF&L policy plan with a strong focus on technology, process and product. It has remained committed to this response despite a difficult domestic and international commercial environment.

While the Australian TCF&L industries are small by some global standards, they make a significant contribution to the Australian economy and are well placed to continue playing a leading role in driving evolution in the knowledge and service economy. This arises from their continuing journey to being a high-value producer, driven by innovation and the ability to build or identify, supply and capitalise on ongoing global leading-edge demands.

These gains are realised through the direct and indirect efforts of the industries as engines of change, development and growth. These benefits are realised in the tangible value of value-adding intellectual, creative, and physical activities, their associated employment and income and the implicit costs associated with the absence of these activities.

It should also be recognised that Australia's key strategic advantages in agricultural, rural and raw material products can only be multiplied in value through the intellectual, design and physical transformations and services undertaken by the applied TCF&L industries. The prospect for rapidly expanding these capabilities in the event of geographic isolation from alternative sources of supply is also of greater significance in the light of potential global conflict.

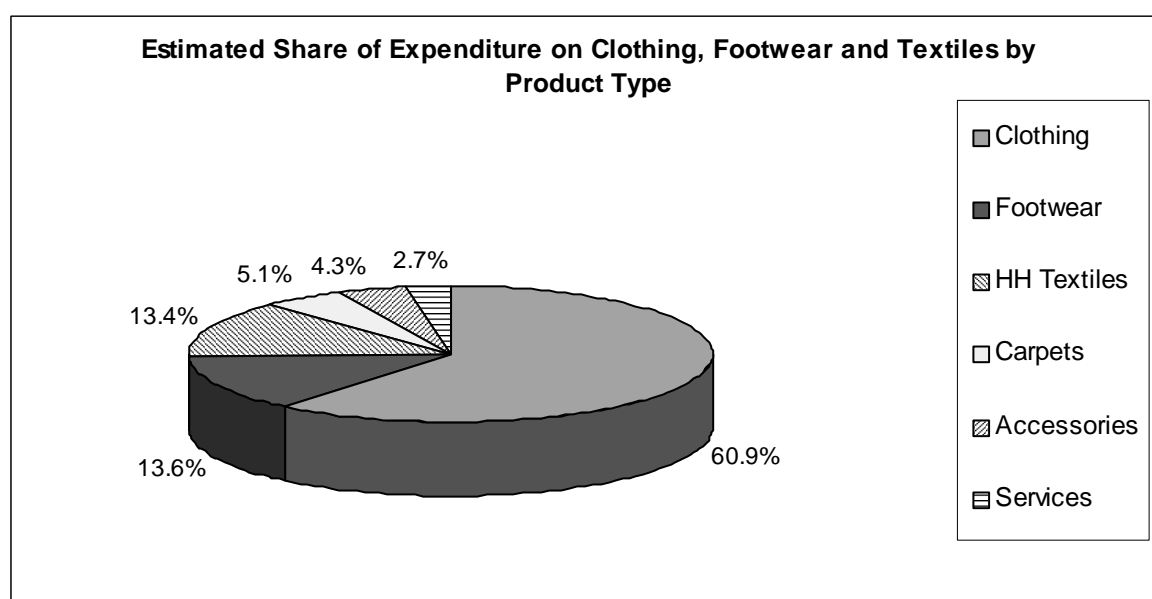
The industry is characterised by its openness to imports (as evidenced by the diagram on the following page), and the wide diversity and availability of products and ranges at internationally low levels of cost.

The most recent survey shows that household expenditure on TCF goods was running at close to \$15 billion per annum of which clothing and footwear comprised \$12 billion. (The total contribution of the TCF sector extends well beyond the value of retail sales as captured by household expenditure data, with considerable output being destined for the commercial sector, e.g. interior textiles for hotels, corporate clothing and automotive). The survey of retail stores, conducted in the same year, demonstrated that approximately 57% of the sales of TCF goods were through specialty stores, 35% through department stores and mass merchandisers and 8% through other retailers. Since these surveys, household expenditure on clothing and footwear has grown by some 8% in real terms.

SUMMARY OF EXPENDITURE ON CLOTHING, FOOTWEAR, CARPETS AND HOUSEHOLD TEXTILES 1998/99

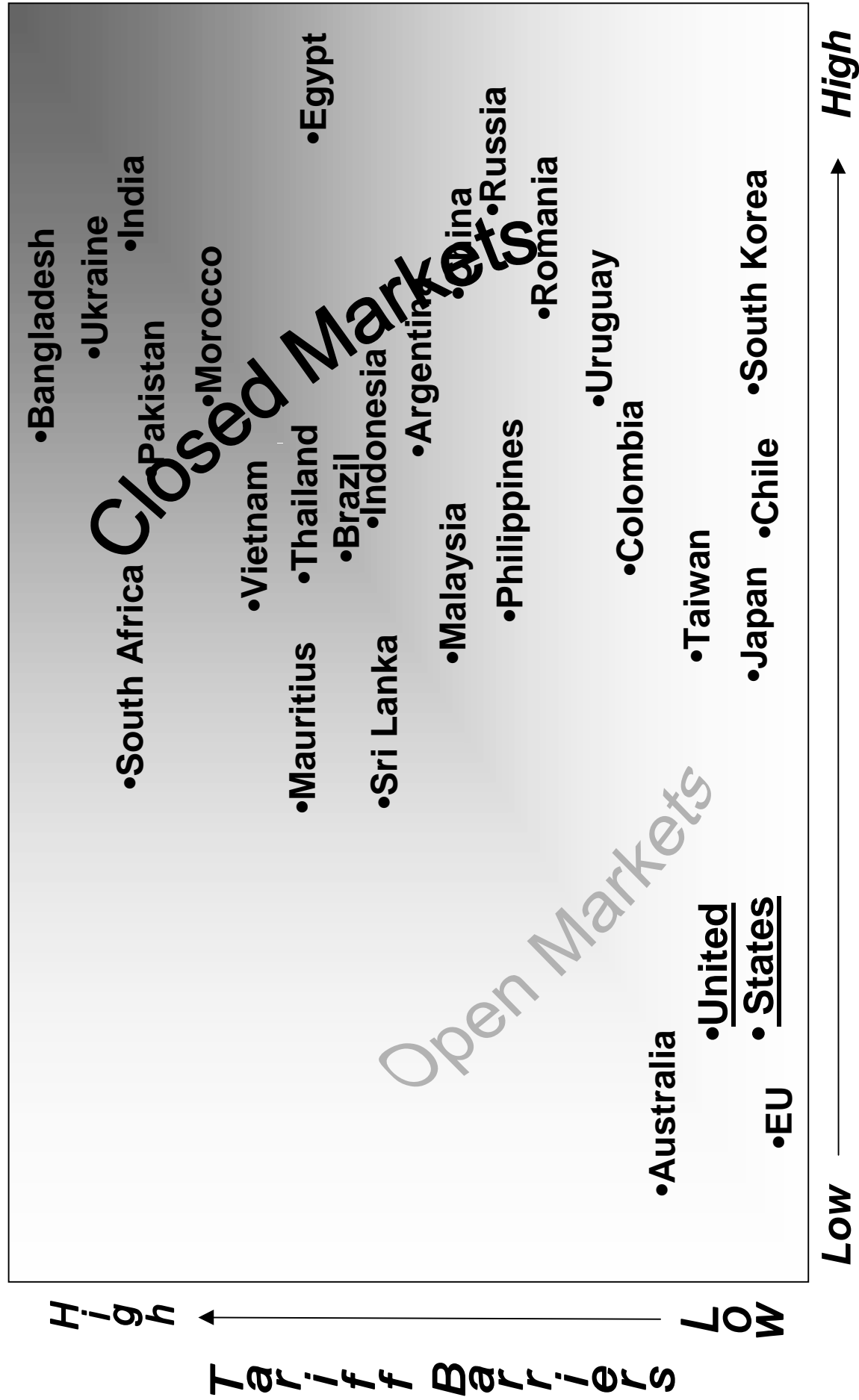
*Estimated Annual Expenditure (\$Millions)
By Category, By State*

	Clothing	Accessories	Footwear	Services	Carpets	Household Textiles	Total	Percentage Distribution
New South Wales	3214	222	668	159	254	689	5206	36.0%
Victoria	2451	145	517	103	163	434	3812	26.3%
Queensland	1296	103	351	47	87	402	2285	15.8%
South Australia	640	52	144	29	94	141	1100	7.6%
Western Australia	783	70	170	39	89	160	1310	9.1%
Tasmania	214	14	72	7	27	45	380	2.6%
Northern Territory	33	3	6	1	2	11	57	0.4%
ACT	171	14	36	10	25	64	320	2.2%
Australia	8830	622	1971	393	741	1945	14501	100.0%
Percentage Distribution	60.9%	4.3%	13.6%	2.7%	5.1%	13.4%	100.0%	



Source: ABS

The Australian TCF&L market is one of the most open and dynamic in the world.



The Australian industries have been through a major process of repositioning and restructuring over the past few decades. This has been driven by changes in the international and domestic operating environments. The industries overall will continue to face challenges from multiple sources while the clothing and footwear sectors in particular, face major competition from China, which has a very significant market share in these product lines. However, the industries have worked vigorously to develop a vision to carve out a distinctive and sustainable global niche, based on the continually evolving competencies, experience and the credibility that has come from its innovative products and approaches. Today, the industries stand at the threshold of strong growth and returns over the next 10 to 15 years as a result of exports, a stronger performance in the domestic market and recent Government initiatives, such as the Strategic Investment Program (SIP). Realisation of this potential depends on successfully completing the journey which, in partnership with the Government, the industries have undertaken over the past decade. While many of these things lie within the capacity of the industries, others depend on an internationally competitive policy environment that is appropriate for the Australian context.

4.2 INTERNATIONAL TRENDS AND INFLUENCES

As might be expected with industries as large and complex as in the TCF&L sector, future developments will be influenced by many factors including:

- ongoing pressure for globalisation, including the consolidation of existing manufacturers, the emergence of new manufacturers and restructuring of global and domestic supply chains
- the development and application of new technologies, especially those associated with information and communication technologies and electronic design and manufacturing systems for small scale high-value, flexible manufacturing systems
- pressures for improved environmental and labour market standards
- the impact of emerging markets and manufacturing nations
- changes in world and regional trading rules and practices.

Many of these factors are influencing the direction of the global industries now. Others, such as the search to develop electronic circuits using natural fibres and the replacement of synthetic polymers with more environmentally sustainable agri-products and processing techniques, will affect the industries over the next 10-20 years.

4.3 CONTRIBUTION OF THE INDUSTRIES TO THE AUSTRALIAN ECONOMY

The TCF&L industries are an integral dynamic of Australia's industrial and social infrastructure and important drivers of economic capability and growth. This is because of their size, their complex linkages to the rest of the economy and the way they operate as a channel for new technology and organisational innovations throughout the value-added chain. The application of new technology and the pressures on the industries for continuous innovation has fundamentally altered their profile and nature in recent years. While there are still significant pockets of quite labor-intensive manufacturing activities, the application of electronic technologies, digitised design techniques and modeling, information and communications technology and, increasingly, design and manufacturing systems based upon three dimensional anthropomorphic considerations, are assisting in the emergence of the TCF&L sector as one of the keys in the successful development of a knowledge and creativity-based economy. The industries are also increasingly important for

the Australian services sector, encouraging further technological improvement and value-adding and assisting in the positioning for a progressive, globally-oriented industry.

4.4 INTERNATIONAL POLICY ENVIRONMENT

Because of the special features the TCF&L industries, they are subject to special and significant attention by Governments around the globe. In general, two broad alternative strategies have been followed by countries in order to attract investment and activity – either facilitating export earnings by providing access to low-cost labor and/or directly supporting investment, R&D and training and education or by “protecting” the domestic market for local operations. In many cases governments apply both strategies.

In most advanced TCF&L producing developed countries, market access for imported TCF&L products remains less open than for virtually all other manufactured products. A range of other supporting measures are also in place and have become relatively more important as the traditional and more transparent trade barriers have fallen. In many emerging markets in developing countries, tariff and non-tariff barriers remain high. Tariff liberalisation in TCF&L products tends to be at the end of the queue, as is demonstrated by the backloading of the global quota liberalisation arrangements under the WTO’s Agreement on Textiles and Clothing, and the current lobbying by the various advanced economies for new “safeguard” measures to be adopted in 2005 - especially against China, currently Australia’s number one source for imports.

See Attachment B “Market Access industry participation program report 2002.”

5. ROLE OF THE INDUSTRY IN AUSTRALIAN ECONOMY

5.1 INDUSTRY CONTRIBUTION TO THE AUSTRALIAN ECONOMY

The economic significance and contribution of the TCF&L industries is unique - whether the focus is employment, technology, design, or involvement in a knowledge-based economy. Its economic importance and strategic significance has been well recognised, and responded to, by Governments all around the world.

At the global level, the TCF&L sector is one of the world's largest group of industries. The international trade in textile and apparel goods alone is worth about A\$700 Billion.

The industry is not only important in its own right, but also as a major customer for many other industries such as wool, cotton, meat, plastics, rubber, electronics, chemicals, dyes and pigments. The TCF&L industries play the role of leading-edge customer for significant parts of these supplier industries. Perhaps less widely recognised but nonetheless important, the industry has been a leader in organisational innovation, production methodologies, the use of advanced manufacturing technologies and the organisation of extended supply chains.²

The traditional view of the TCF&L industries as a major part of the industrial economy and direct provider of jobs and investment now needs to be extended. With its new emphasis on innovation and flexibility, the TCF&L sector is rapidly becoming an integral part of the emerging knowledge-based economy and has built intensive linkages to the services sector. This enhances its already considerable potential for future growth, provided a conducive operating environment exists.

5.2 SOURCES OF CONTRIBUTION TO THE ECONOMY

The Australian TCF&L industries make a number of significant direct contributions to the economy. Some of these contributions, such as casual and full-time jobs, have been traditionally recognised. However, the contribution the TCF&L industries are making to the development of Australia's knowledge-based economy and Australia's reputation as an exporter of complex manufactured products is only starting to be recognised.

5.3 TRADITIONALLY RECOGNISED ECONOMIC CONTRIBUTIONS

5.3.1 EMPLOYMENT

The TCF&L manufacturing sector is a major direct source of full-time, part-time and casual jobs. ABS data indicates that this sector employs nearly 80,000 people³.

The industry is also an indirect generator of jobs, being crucial to employment in sectors such as tooling, early-stage processing of raw materials and is an anchor supplier to the retail sector. It is estimated that for every job directly generated within the industry, a further 2.5 to 3 jobs are created indirectly. This is a particular significance to key regional areas, such as Geelong, Bendigo, Devonport and Wangaratta, which are heavily reliant on the employment opportunities created by the sector. As well, the TCF&L is a substantial employer of females. The sector employs between 15 per cent and 18 per cent of female employees in the entire manufacturing sector in the two largest States, New South Wales and Victoria.

² TCF&L Forum and Arthur Andersen Benchmarking Study 1999

³ ABS Labour Force Statistics

5.3.2 INVESTMENT

ABS data indicates that new investment by the industries was nearly \$3 billion over the past decade. This could increase to approximately \$3.5 billion for the coming decade given the right set of conditions.⁴

5.3.3 OUTPUT AND VALUE ADDED

Industry output was over \$9 billion in 2000/01, about 3.6 per cent of total Australian manufacturing. The manufacturing industries had a value added component of \$2.6 billion in 2000-01, representing over 3.6% of total manufacturing industry value-added for that year.

5.3.4 LINKAGES TO SUPPLIER INDUSTRIES

The TCF&L industries have close linkages to a number of other industries, both in manufacturing and the services sector. Many jobs in manufacturing industries such as chemicals and plastics are directly dependent upon the TCF&L industries. The same is increasingly true for jobs in a range of service industries such as transport, legal, advertising and ICT which provide services to the TCF&L industries.

5.4. NEWLY RECOGNISED ECONOMIC CONTRIBUTIONS

These traditional sources of contribution to the economy have been well documented in the past, both in Australia and in other countries with TCF&L industries. However, the contribution of the TCF&L industries to the development of the knowledge-based economy is only beginning to be fully recognised. The OECD has highlighted the importance of areas such as human capital development, R&D and links to local and global innovation systems to economic performance. The major channels by which the Australian TCF&L industries are contributing to Australia's innovation performance and global integration are explored below.

5.4.1 HUMAN CAPITAL AND SKILLS FORMATION

The TCF&L industries have invested heavily in training and skills development for its workforce, reflecting the need to achieve world-class levels of performance in quality and price and to provide for continuous improvement.

5.4.2 EXPENDITURE ON AND PERFORMANCE OF PRODUCT AND PROCESS IMPROVEMENT

Encouraged by the SIP scheme, TCF&L firms have significantly enhanced their ability to identify product and process improvements which had been previously embedded in their activities.

As a result, many firms are aiming to substantially increase their expenditure on product and process improvements.

Increasingly, companies within the TCF&L industries are developing relationships with universities, the CSIRO, semi-Government agencies and the private sector to undertake collaborative projects.

⁴ ABS New Capital Expenditure

CASE STUDY 4

The Macquarie Textiles Group, based in Albury, is undertaking breakthrough research and development project to ensure it is at the forefront of non-woven woollen products. The non-woven process is an accepted method of production with synthetic and man made fibre, but it is new for woollen products to use this process.

The project is a partnership with Australian Wool Innovation Limited. The partnership is utilizing the intellectual property being developed by Macquarie Textiles in conjunction with the Wool Research Organisation of New Zealand. The project is also receiving SIP benefits.

“The project requires a new way of thinking for woollen fabric production and requires the design and construction of a manufacturing process from virtually a blank page.” – Mr Craig Dempster, Company Secretary of Macquarie Textiles.

5.4.3 DISSEMINATION OF WORLD’S BEST PRACTICE MANUFACTURING METHODS AND TECHNOLOGIES

Product development partnerships have been developed between manufacturers of apparel, bed linen, towels, carpets, and other finished textiles and their intermediate textile suppliers of yarns and fabrics as the need to invest in innovation throughout the supply chain has become evident. The TCF&L industries are an important source of leading-edge design, engineering and production technologies which are disseminated to suppliers and industry more generally. Its growing use of advanced manufacturing technology is reflected in its significant purchases of electronic equipment.

The TCF&L industries have also played a leading role in the adoption of international quality standards. The industry is also now a leader on the adoption of environmental management accreditation standards.

5.4.4 CLOSE LINKAGES TO THE SERVICES SECTOR

While the TCF&L sector has traditionally been closely linked to a number of other manufacturing industries, there has been a trend in recent times for the industry to connect strongly with a range of specialist services providers.

Recently, the term ‘new manufacturing’ has been used to describe the changing nature of advanced services intensive manufacturing activities. Key findings of a recent detailed study showed that:

- Well over 50 per cent of TCF&L’s inputs from other industries come from the service sector – over 98% of these are Australian based services⁵
- Services activities are also becoming increasingly important within manufacturing itself with some commentators estimating that more than 35 per cent of employment in manufacturing is in service occupations growing from the manufacturing activity
- This interaction, between the manufacturing sectors producing ETMs and the services sector, indicates that while services may be a powerful economic growth engine in Australia, much of these services are dependent upon the domestic presence of a strong “elaborately transformed” manufactures sector, such as TCF&L in Australia

5.4.5 BUILDING AUSTRALIA’S REPUTATION AS AN EXPORTER OF COMPLEX MANUFACTURED PRODUCTS

Over the past decade, exports of TCF&L products have expanded rapidly and in 2000-01 exports contributed nearly \$3 billion to Australia’s total exports, with manufactured goods representing an ever greater proportion compared to previous years.⁶

Over the past 10 years, this represents a 110% increase in total exports and a 175% increase for manufactured goods. The evidence of this trend is included in the following more detailed tables (*see following page*).

⁵ based on 1993 Input –Output tables

⁶ TCF&L Forum p 29

Selected TCFL Data - Australia

Industry Sector	1990-91	2000-01	Percentage Change 1990-91 to 2000-01
TURNOVER (\$000s)			
Textiles and Textile Products excluding wool scouring	3,674,884	3,464,400	-5.7%
Clothing and Knitting Mills	4,508,003	3,461,470	-23.2%
Footwear	690,896	557,500	-19.3%
Leather product mfg	67,177	38,900	-42.1%
Total TCF & L manufacturing	8,940,960	7,522,270	-15.9%
Wool scouring and Leather tanning	846,177	1,588,500	87.7%
Grand Total TCF & L	9,787,137	9,110,770	-6.9%
IMPORTS (\$000s)			
Textiles and Textile Products excluding wool scouring	1,819,676	2,524,626	38.7%
Clothing and Knitting Mills	987,690	3,246,485	228.7%
Footwear	382,350	925,984	142.2%
Leather product mfg	224,541	478,772	113.2%
Total TCF & L manufacturing	3,414,257	7,175,867	110.2%
Wool scouring and Leather tanning	151,743	212,927	40.3%
Grand Total TCF & L	3,566,000	7,388,795	107.2%
EXPORTS (\$000s)			
Textiles and Textile Products excluding wool scouring	207,989	533,147	156.3%
Clothing and Knitting Mills	143,654	440,599	206.7%
Footwear	23,163	61,684	166.3%
Leather product mfg	11,087	24,936	124.9%
Total TCF & L manufacturing	385,893	1,060,366	174.8%
Wool scouring and Leather tanning	1,002,289	1,876,211	87.2%
Grand Total TCF & L	1,388,182	2,936,577	111.5%
DOMESTIC DEMAND (\$000s) *			
Textiles and Textile Products excluding wool scouring	5,286,571	5,455,879	3.2%
Clothing and Knitting Mills	5,352,039	6,267,356	17.1%
Footwear	1,050,083	1,421,800	35.4%
Leather product mfg	280,631	492,736	75.6%
Total TCF & L manufacturing	11,969,324	13,637,771	13.9%
Wool scouring and Leather tanning	-4,369	-74,784	1611.7%
Grand Total TCF & L	11,964,955	13,562,988	13.4%
IMPORT SHARE OF DOMESTIC DEMAND %			
Textiles and Textile Products excluding wool scouring	34.4	46.3	
Clothing and Knitting Mills	18.5	51.8	
Footwear	36.4	65.1	
Leather product mfg	80.0	97.2	
Total TCF & L manufacturing	28.5	52.6	
Wool scouring and Leather tanning	-3,473.2	-284.7	
Grand Total TCF & L	29.8	54.5	
EXPORT SHARE OF TURNOVER %			
Textiles and Textile Products excluding wool scouring	5.7	15.4	
Clothing and Knitting Mills	3.2	12.7	
Footwear	3.4	11.1	
Leather product mfg	16.5	64.1	
Total TCF & L manufacturing	4.3	14.1	
Wool scouring and Leather tanning	118.4	118.1	
Grand Total TCF & L	14.2	32.2	

Source: ABS

Netting out simply transformed manufactures, the industries export ratio has increased from 4.3% to 14.1% over the decade.

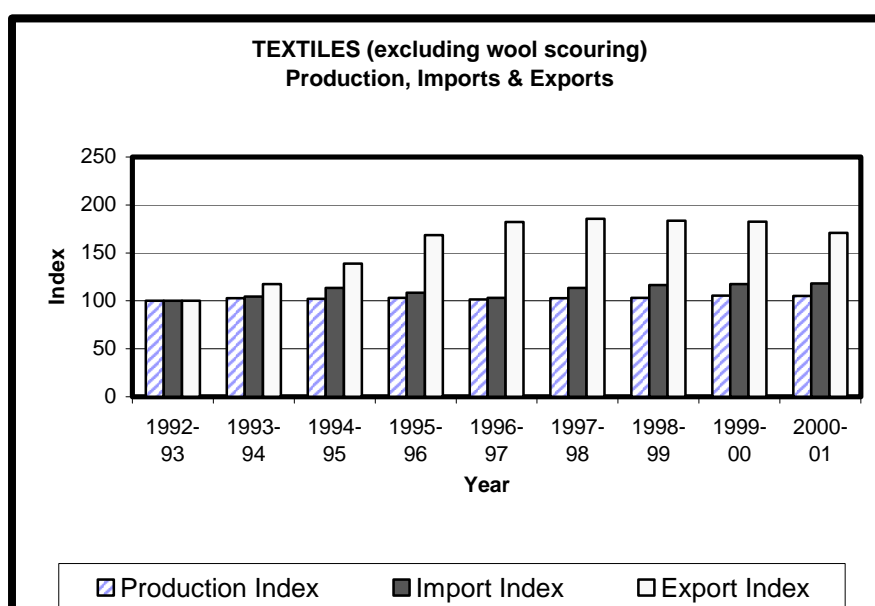
The industry's growing exports are generating significant spill-over benefits for Australia beyond those that are fully captured by the industry itself. These benefits include:

- the expansion of exports improves Australia's balance of payments and hence the capacity of the economy to grow faster;
- the expansion of exports of ETMs and high-end services improves Australia's average terms of trade and supports the Australian dollar;
- the challenge of meeting the quality demands of export markets have driven quality improvements in Australian production for the domestic market;
- the export of ETMs from Australia acts to raise Australia's profile and reputation overseas as a source of high-quality technologically advanced products; and
- the TCF&L industries act as a demonstration model for other potential exporters of ETMs.

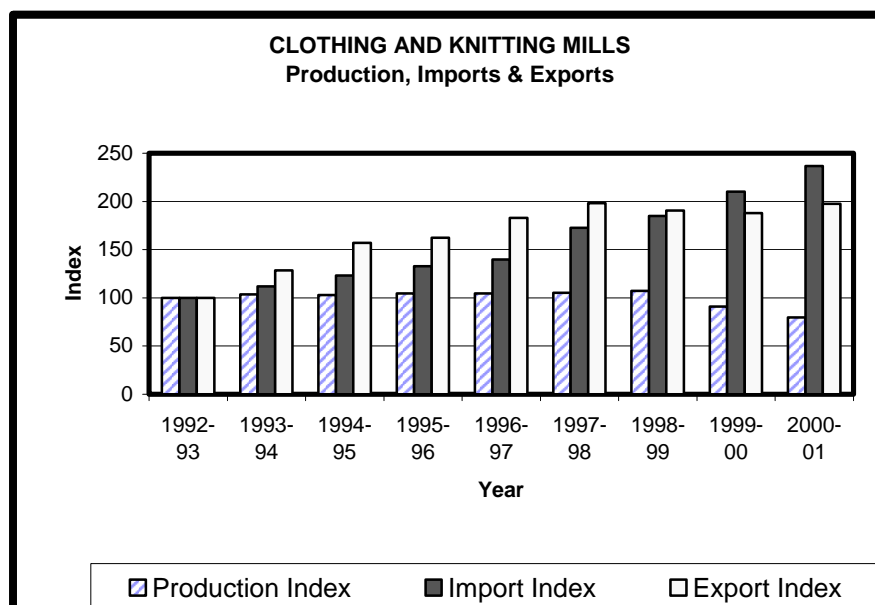
5.5 CONTRIBUTION TO FUTURE GROWTH

There has been a perception in Australia that the TCF&L industries have reached maturity and have limited prospects for growth. Over the past 10 years, the industry's output has remained relatively stable despite a significant reduction in the quantity of goods produced for the local market. This change in the industry's composition has been driven primarily by export growth and a withdrawal from producing low-value commodity-type merchandise. This consolidation has been underpinned by the industry's ability to improve its international competitiveness, increase innovation and respond flexibly to emerging opportunities.

INDICES OF PRODUCTION, IMPORTS AND EXPORTS 1992/93 = 100



Source: ABS



Source: ABS

Looking to the future, there is potential for the TCF&L industries to grow at a significantly faster rate in the next five to 10 years. The main sources of enhanced growth would be:

- Improved productivity performance associated with the effective application of powerful new IT and production technologies and the ongoing drive towards agile manufacturing and international orientations.
- The ability of manufacturers to continue to identify and create niche demands in the Australian market by producing new ranges and products that enable the design to production cycle to be significantly shortened.
- Increased exports of products based on product innovation and the consequent development of new export markets.
- Further growth through demand drivers for innovative Australian fashion designs, in turn the key to innovative and improved Australian made fabric demands.

If the industry can capitalise on its potential in each of these areas, it will be able to make an even larger economic contribution to Australia over the coming decades.

Manufacturers, by demanding high standards of cost and quality competitiveness from suppliers of materials, will also spur greater productivity and competitiveness across the wider economy. The industry is working with its suppliers to upgrade their capabilities to help them meet these standards. In this way, they are acting to disseminate world's best manufacturing methods and technologies throughout their supplier base, thus strengthening the competitive position of a number of supplier industries.

This modern view of the industries is a valuable addition in assessing the ability of the TCF&L industries to contribute to the growth of the Australian economy. The challenge for industry and Government is to work together to create a globally competitive policy environment for the TCF&L industries which will help them to achieve their potential for growth in the interest of the economy and the community as a whole.

6. THE REGIONAL FACTOR

The TCF plays a very important community, economic and social role in many regional areas of Australia.

While the activities of the Australian TCF&L industries are predominantly located in Victoria and NSW (the industry accounts for 9% and 5.1% of manufacturing employment respectively and 5.6% and 3% of manufacturing value added), significant operations are also located in South Australia, Western Australia, Tasmania and Queensland.

The location of industry activities in many regional centres also gives rise to significant impacts on these micro-economic regions. The presence of companies such as Godfrey Hirst in Geelong, Australian Weaving Mills in Devonport, Macquarie Textiles in Albury, Bruck Textiles and Australian Country Spinners in Wangaratta, Australian Defence Apparel in Bendigo, Hilton Fabrics in Ballarat and New Wave Leather in Toowoomba are of considerable importance to the viability and vitality of these regional centres.

CASE STUDY 5

Geelong, Victoria's second largest city, has become a niche centre in specialized markets supplying clothing, carpets, surf wear, fine wool processing, wool tops and wool products. There are more than 60 of these businesses in the Geelong and Surf Coast Region.

The City of Greater Geelong estimates that TCF&L industries in the region have an estimated turnover of \$440 million and directly employs 2 150 workers, with a further 2838 employees in support industries.

Godfrey Hirst, which manufactures high quality, high technology carpets and floor coverings with an export market to China, Guam, Hong Kong, Indonesia, Macau, Vietnam, Malaysia, Singapore, Taiwan, The Philippines, the Middle East, United Kingdom and the USA, is the third largest employer in the Geelong region with 800 staff.

"The TCF&L has played an important role in the development of Geelong's economy" – City of Greater Geelong.

The industry faces some significant disadvantages in relation to the burden of support to these communities, compared to metropolitan communities. In our submission, the policy environment should encourage growth in regional manufacturing and investment.

The current SIP Scheme includes a reference to regional reconfiguration assistance. However, the data available suggests that the rigid formula applied and debatable assistance approach has delivered a less-than-expected policy outcome. While this particular area is one that should be amended immediately, the Commission is asked to carefully examine the reconfiguration in the industry that may be needed to strengthen domestic TCF activity in those areas. It is the TFIA view that the necessary supply chain linkages for a viable and strong future sector will be assisted by consideration of reconfiguration in other areas.

Of equal importance in regional areas are programs that assist displaced employees to re-enter the workforce as soon as possible. We understand that the TCFUA will be making a more detailed submission on the labour adjustment appropriate for the TCF&L sector.

The issue of female employee displacement in regional areas is of great concern. ABS Labour Force figures show that in 2002, there were 17,175 female employees in Victoria in the TCFL sector which accounted for 18.1% of female employees in the manufacturing sector. In New South Wales, the corresponding figure was 15.3%. Other States range from 11.1% to 18.0%.

In regional areas, there is little opportunity for displaced female employees to seek work opportunities outside the TCFL sector. Many female employees are working mothers, aged over 40, have non-English speaking backgrounds and do not have the necessary skills to transfer to other occupations.

The introduction of SIP has also resulted in what may be termed “hidden benefits” flowing directly to small and medium regional businesses as a result of capital expenditure on new buildings and machinery and product development. This is because machinery installation, materials and parts are sourced from local businesses.

7. GLOBAL TRENDS AND INFLUENCES

The TCF&L industries comprise one of the world's largest and most significant sectors, roughly twice the size of the global market for iron and steel products. Globally, the textiles and apparel industries are estimated at around A\$2 trillion with huge investments in plant and equipment throughout the world, employing large workforces, and organising complex supply chains. Over the 1990's, trade in textiles and clothing products grew faster than trade in agricultural and mining products.⁷ It should be noted that while the value of global trade in textiles actually declined in 1999, this was thought to be attributable to generally adverse economic conditions.

Perhaps less well recognised, but no less significant, the TCF&L industries are an important platform for the application and development of many new products, processes and organisational technologies and methodologies. It is one of the largest performers of product and processing development and a major source of innovation.

The scale of the industries, their scope and implications for the global and individual economies and the natural environment, means a complex range of factors influence their development. While many of these factors are driving broader global economic change, they have special implications for the TCF&L industries. These forces include:

- Globalisation in all its different aspects, including corporate change, supply chain development, restructuring and rationalization.
- New technologies (and organisational methodologies) and the growing importance of innovation in all its forms.
- Regulation aimed at achieving society's environmental, labour relations and occupational health and safety goals.
- The impact of emerging industries and markets such as China.
- Ongoing developments in world and regional trading rules and practices.

This chapter considers these and related matters to convey a picture of a likely global trading environment for the TCF&L industries over the next 10 to 15 years - for example, changes in fabric and fibre technologies and the changing incidence/focus of world investment and production locations, and the consequent shift in world trading patterns for TCFL goods.

7.1 GLOBALISATION

Restructuring among TCF&L manufacturers in advanced Western countries has been driven by a combination of fierce competition and the inability of administrations to protect the knowledge base of the industries through direct measures such as intellectual property laws or indirectly through product restraints.

In recent years, manufacturing capabilities have shifted around the world as markets have grown. Access to markets has been used as an integral component of national aid and industrial strategies. This has seen the suppliers to the American market congregate in Mexico and the Caribbean Islands (under the NAFTA and CBI arrangements) and more recently, Africa (under the AGOA) and increasingly, South America. America is actively facilitating the utilisation of trade preference programs, encouraging the use of American textiles through the Caribbean basin and

⁷ WTO Trade by Sector 1999 p1

Africa. The American administration has decided that any tariff reductions must be “linked to reciprocal cuts by our trading partners, as well as to elimination of other trade distorting practices, to level the playing field.”⁸

Europe has turned to Eastern Europe as its source of low-cost high-volume commodity merchandise by expanding EU membership to encompass the eastern countries (and those of the Baltic States).

Asian suppliers' access to the major European and US markets has been heavily restricted over the past three decades, firstly through the operations of the Multi Fibre Agreement (MFA) and since the conclusion of the Uruguay Round, by the Agreement on Textiles and Clothing (ATC). While the scheduled termination of the ATC in 2005 is meant to mark the end of bilateral quotas, the major western markets have introduced ‘safeguard’ measures against any sudden import surges, especially from China, and are indicating their intention to aggressively apply them⁹.

The expansion of the world’s manufacturing capabilities has been accompanied in the developed countries by an accelerating rate of technological change, a greater rate of product development and increasing emphasis upon design. This is in order to differentiate products from the low-cost and derivative items available from Asian suppliers. However investment in new technologies is now tending towards growth rates equal to those that occur in the developed economies.

This has emphasised the need for many firms to reduce the time frame within which their design, manufacturing and marketing strategies are implemented and executed, before the imitators (who do not bear any development overhead or infrastructure) copy the intellectual property contained in the yarn constructions, fabric, garment and footwear designs and using low-cost labour, economies of manufacturing scale, low-cost transport and low entry barriers enter the market to compete with (and often undermine the value of) the original innovator.

The lack of effective protection for intellectual property is a major area of market failure. In the US at least, Customs is tasked with ensuring imports do not breach the intellectual property contained in copyrighted or trademarked designs, patterns, names, symbols and logos. In 2001, wearing apparel was the top commodity seized by U.S Customs for violation of IPR laws. Plans are also under way to address the American TCF&L industry’s concerns about IPR in bilateral negotiations and the Doha Round.

The rationalisation trend is being supported by an important change in the nature of the relationship between TCF&L manufacturers and their supplier base. Concurrent with the emergence of major retail chains has been a trend towards TCF&L suppliers becoming partners in retail product management, logistical control and stock management.

To succeed in this new environment, TCF&L manufacturers have developed leading-edge supply chain management skills. These skills have led to the development and application of key productivity-enabling technologies such as e-commerce, bar coding and communication technologies. Suppliers to the TCF&L industries have now mastered these techniques in order to improve their performance to meet product delivery and reliability standards. In this way, the innovation intensity of the industry, and hence the premium on accessing knowledge and developing proprietary intellectual property, is being increased throughout the TCF&L supply chain and the wider economy.

⁸ p 2 Report to the Congressional Textile Caucus on the Administrations Efforts on Textile Issues, Sept 2002

⁹ p 3 Report to the Congressional Textile Caucus on the Administrations Efforts on Textile Issues, Sept 2002

7.2 NEW PRODUCT ENGINEERING TECHNOLOGIES

TCF&L production techniques are incorporating higher levels of technology than ever before. As identified by Arthur Andersen, a key to being a successful TCF&L company is a significant level of investment in IT and electronic commerce¹⁰. Textiles, carpets, leathers, footwear and apparel are becoming extremely information technology (IT) intensive, with the value of communications and electronics content as a percentage of production costs increasing dramatically over the past 15 years.

The continual upgrading of the technology used by the industries has enabled them to:

- shorten delivery schedules;
- introduce batch manufacturing techniques for as low as one unit of stock;
- enhance stock control;
- increase the attractiveness of products to customers;
- develop new niche products across a range of industries;
- meet higher labour and operating standards; and

The higher levels of technology now involved in end-use TCF&L applications and the expectation that this trend will continue, is forcing a significant upgrading in the capital and innovation capabilities of the TCF&L industries. With the emergence of technologies such as Computer Aided Fabric Evaluation, three-dimensional design and assembly and increased reliance on computer-based design and engineering tools, the industry internationally is placing increasing focus on raising the technical and technological profile of the industry.

The innovation intensity of the industry is reflected in its efforts to improve design and production processes. Globally, the TCF&L industries have led the way for other manufacturing sectors in the adoption of just-in-time inventory management, lean production methodologies, the use of robotics and now in relation to total productive management.

While this leading-edge nature of the industries is not affected by trade and production issues, the location and dispersion of the technologies is heavily influenced by these factors.

7.3 IMPACT OF EMERGING MARKETS AND MANUFACTURING NATIONS

Much of the investment for capacity extension - whether through extension, fragmentation or relocation of existing capacity - has tended to be in low-cost countries in Asia, Eastern Europe, South America and increasingly Africa. Much of this investment has been driven by the desire of companies to tap lower cost areas of manufacturing as well as to address emerging markets.

The maturity of TCF&L markets in developed countries and the potential market growth in the populous countries in Asia, notably China, will see companies vigorously pursuing major investments in these countries. The existence of large and protected markets makes these emerging nations attractive investment locations. Attention is focussing on China, where the growth in the market in the coming decades is expected to be great. To date, the majority of investment in manufacturing in China has been directed towards export activities.

¹⁰ Arthur Andersen Textile and Footwear Benchmarking Study 1999

China already has a substantial TCF&L industry and major investment in production capacity will continue. With the scheduled termination of bilateral quotas, many other countries recognise that they will not be able to compete with China. Consequently, countries like Japan, Taiwan, South Korea, etc have invested heavily in introducing the latest production technologies to China.

Equally, with China's entry into the WTO, and the resulting commitments to open its markets, the opportunity exists for the Australian TCF&L industries to take advantage of the inherent demand in China and supply appropriate products into the Chinese market, thereby further diversifying Australia's exports.

7.4 TRENDS IN WORLD AND REGIONAL TRADING RULES AND REALITIES

The development of the world TCF&L industries has been influenced by trends in world and regional trading rules and realities. As a result of a number of GATT multilateral trade negotiating rounds, the level of tariffs on manufactured products, including TCF&L products has fallen in developed countries. Not only are tariffs high but these arrangements are complicated by varying levels of product specificity in tariff codes, the use of price lines as trigger points, absolute tariffs and quantitative restrictions and safety mechanisms.

The situation in emerging markets is even more complex. Tariff and non-tariff barriers in developing countries seeking to develop their TCF&L industries tend to be very high and more complex when compared to the standards of developed countries. Non-tariff barriers of one kind or another are common.

For example, India has a burdensome and costly standard for testing textile dye, and additional import taxes and fees on textile products. Egypt and Pakistan apply tariff rates in excess of WTO tariff bindings¹¹. In China, protection of IP is a source of ongoing frustration and cost.

Looking forward, it is possible that there will be reductions in TCF&L tariffs as a result of the Doha Round. However, the policy of the world's leading players to make any reductions conditional on being linked and reciprocated means that unilateral unconditional reductions are unlikely to occur.

Since the Uruguay Round, most of the trade liberalisation that has been generated has occurred within the context of regional trade blocs. But progress on integrating TCF&L tariffs into such negotiations has been slow. An example is provided by NAFTA, where the American recognition of the importance of its textile industry led to the development of the yarn forward rule for evaluating eligibility for preferential treatment.

There is, therefore, little to suggest the Australian TCF&L industries will significantly benefit in the next five to 10 years from reductions in General System of Preferences (GSP) TCF&L tariffs. This is a major impediment for the development of Australia's TCF&L industries in terms of its ability to integrate its development with that of the South East Asian region's industry.

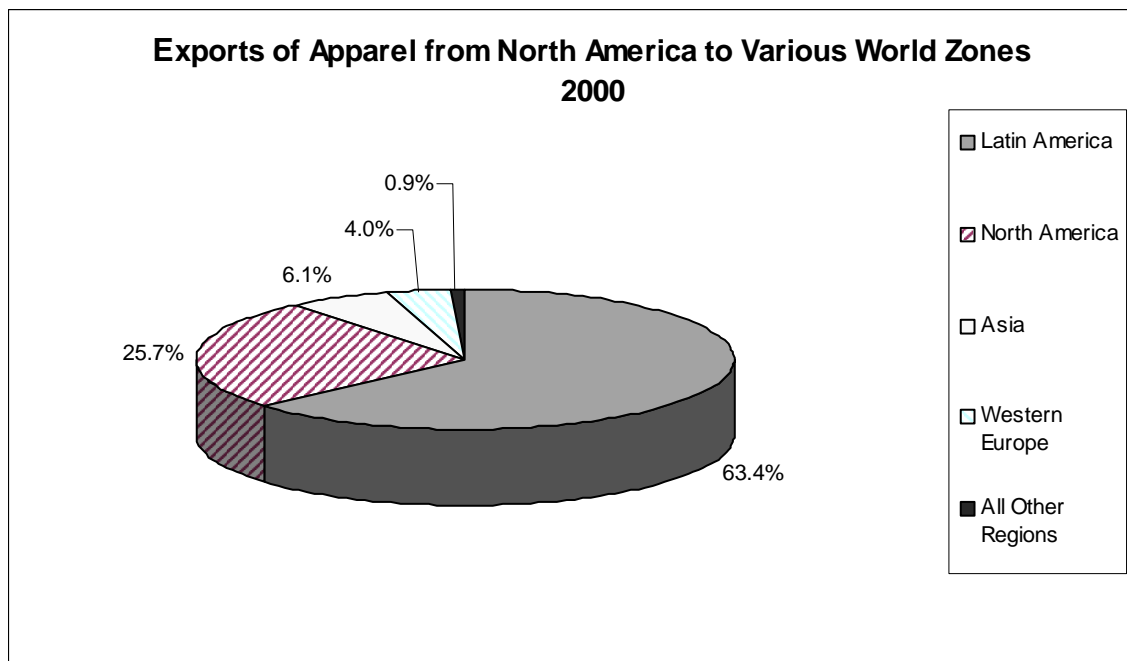
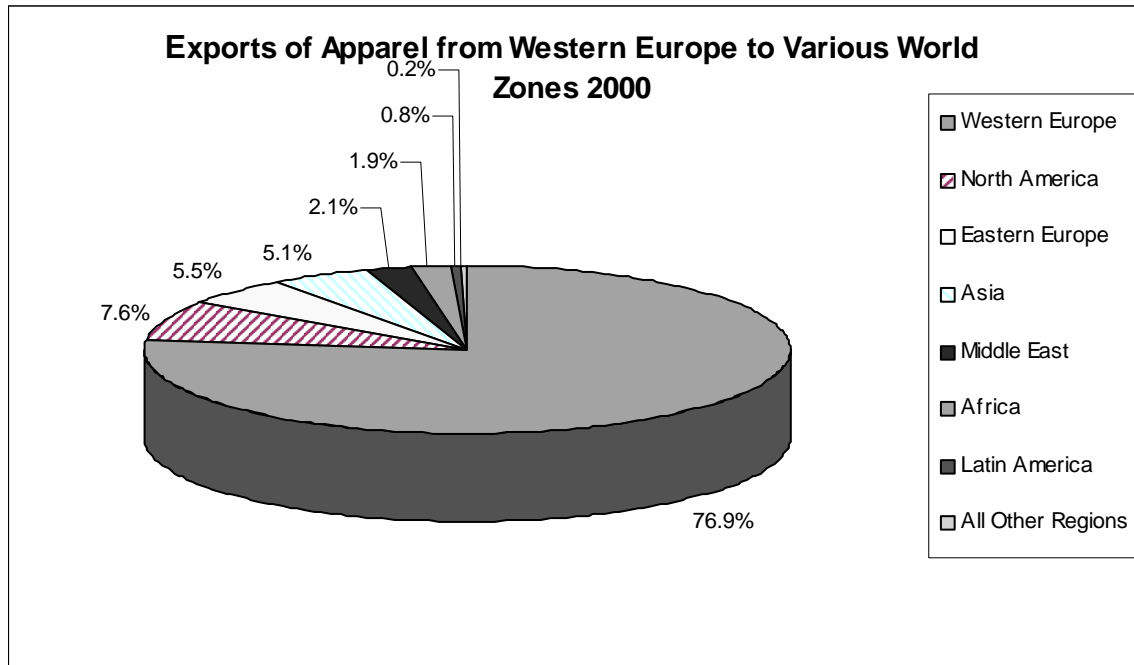
It should be noted that Australia's policy of unilateral and unconditional reductions is at odds with international practice and stated policy for these negotiations. This could result in any reductions made by Australia prior to the negotiations not being reciprocated.

Regional trade blocs such as NAFTA, the EU and, in time, AFTA have and will open up increased trade opportunities for their members. But, for the moment at least, Australia is not a member of any of these regional agreements, and it runs the real risk of being effectively locked out of any of the major trading blocs. If Australia unilaterally reduces its tariffs further, it will have given away any

¹¹ Report to congressional textile caucus on the administration effects on textiles issues - US Department Commerce 2002

clout it may have had to negotiate reasonable access to these blocs. Nevertheless, trade barriers applying to these products remain a significant issue and progress at reducing trade barriers in emerging countries has been slow, particularly in ASEAN and elsewhere in Asia.

Exports of Apparel by Principal Region



Source: WTO statistics

8. AUSTRALIAN INDUSTRY RESPONSES TO CHANGING GLOBAL AND LOCAL ENVIRONMENTS

The global trends and influences discussed in Chapter 7 and Attachment B have had a significant impact on the activities of the Australian TCF&L industries. However, in addition to adjusting to these global trends, the Australian industry has also faced a number of distinctly local developments that have impacted upon its operating environment.

The combined impact of these global and local influences has significantly hindered the industries' efforts to reposition themselves as innovative, efficient and effective manufacturers and product developers.

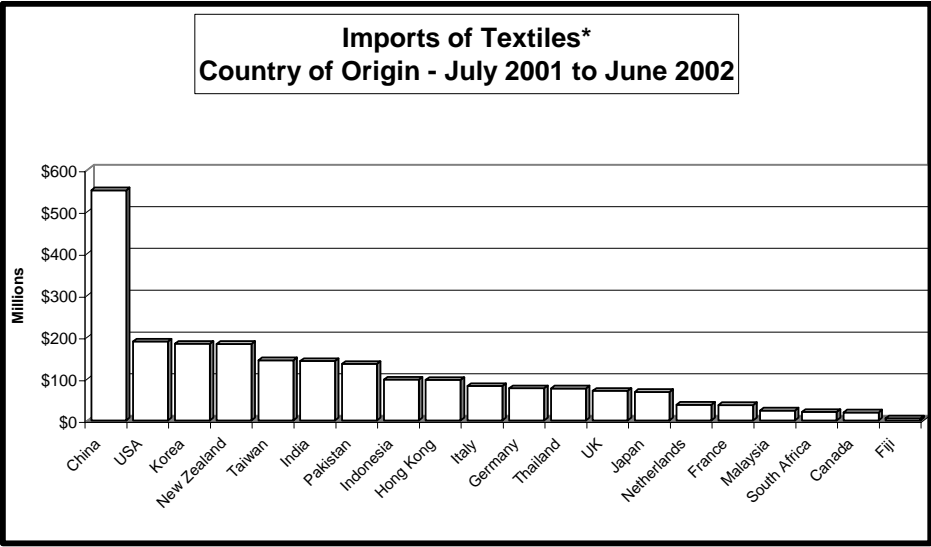
8.1 RECENT CHANGES IN THE AUSTRALIAN OPERATING ENVIRONMENT

In addition to the global trends outlined above, other developments driving change within the Australian TCF&L industries and marketplace include:

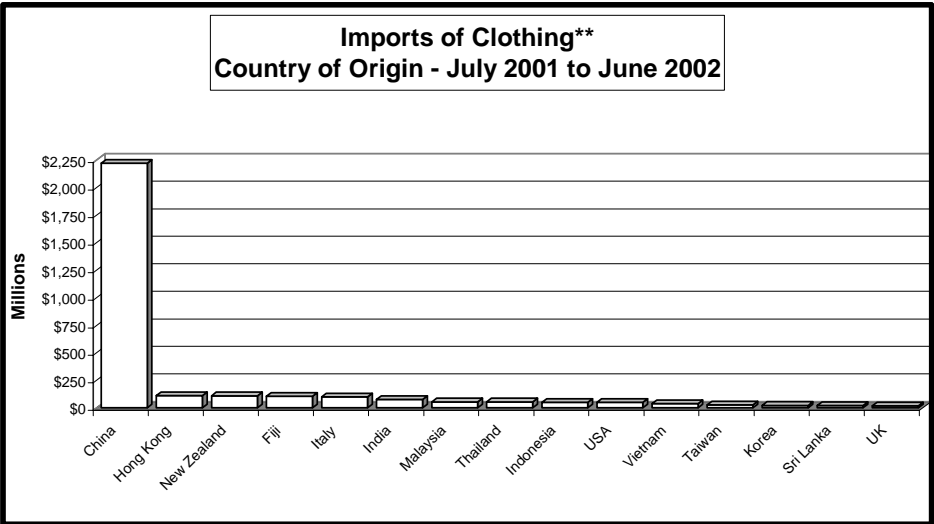
- The 1982 decision by the Australian Government to maintain the level of Australian TCF&L industry activity by ensuring that imports could only increase by the extent that the market grew
- The 1986 decision to gradually phase out quotas by 1996
- The 1991 decision to unilaterally and arbitrarily abolish quotas by 1993 combined with support for export sales through an Import Credit Scheme.
- The 1995 decision to support specific business improvement programs
- The 1998 decision to replace the sales oriented ICS scheme and the business improvement programs with the Strategic Investment Program focusing on strategic capabilities and input activities.
- The reduction in tariffs from in excess of 200% per cent in the 1980's to 17.5%/10%/5%/Free from 2005.
- The devaluation of the Australian dollar against the Yen and the US dollar.
- The undermining of Fiji as an effective offshore location for textile exports and apparel assembly for the Australian industry (especially in the knits area).
- The introduction of the 10 per cent goods and services tax (GST) without any offsetting reductions in other taxes (as wholesale sales tax, which GST replaced, was not applicable to the majority of TCF goods).

The reduction of tariff rates has seen import competition intensify, reducing the domestic market share of local manufacturing. Domestic output of \$9.1 billion in 2000-01 represented an estimated 45 per cent share of the Australian market, down from 70% in 1990-91. Particularly in the capital intensive areas of the industry, any further decline in domestic market share represents a serious threat to the scale and sustainability of the domestic manufacturing industry.

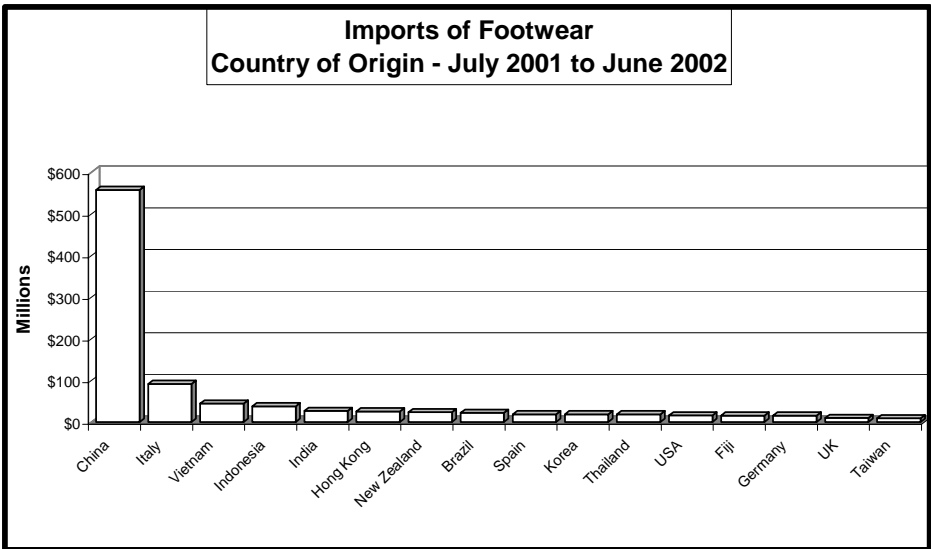
Imports by Major Countries of Origin



* Yarn, fabrics and made up articles



** Clothing and clothing accessories



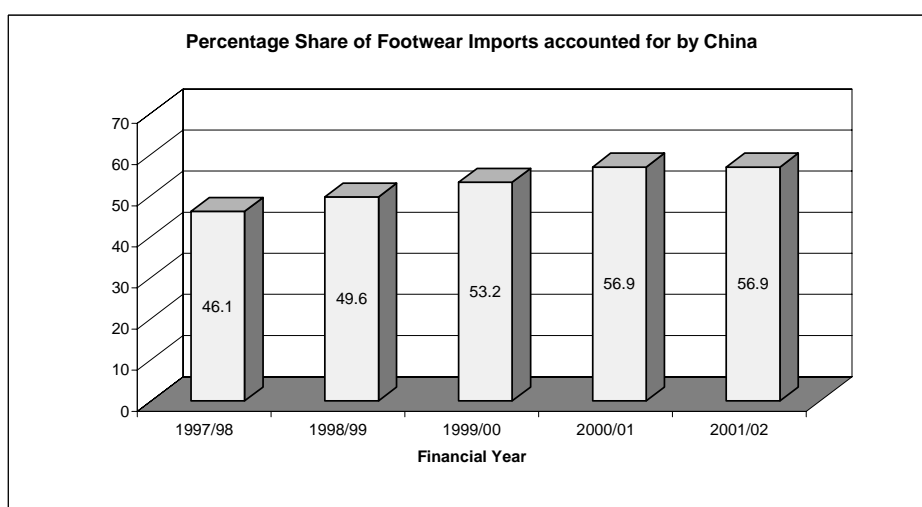
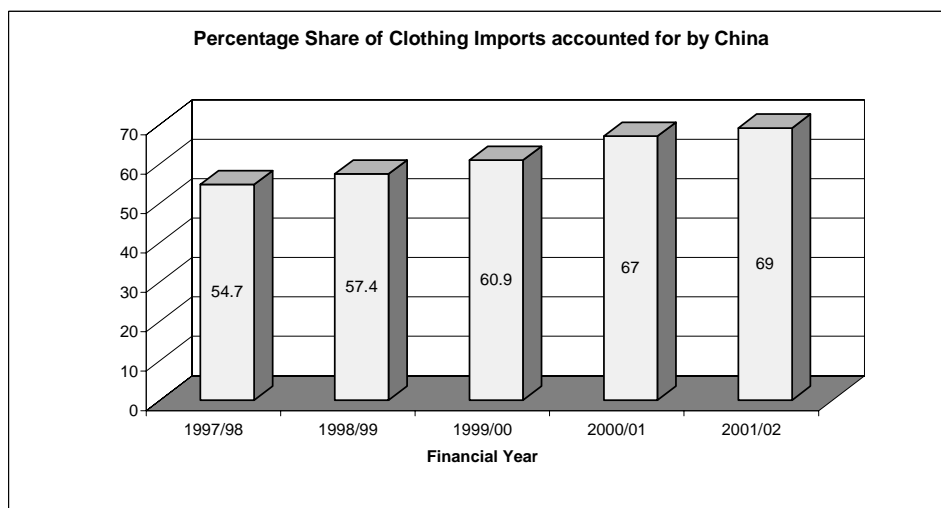
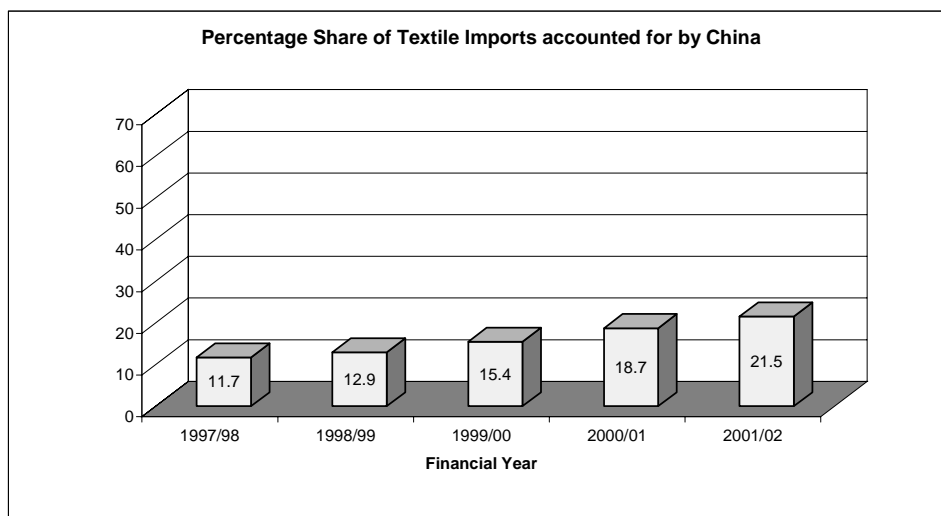
Source ABS

The industry has responded reasonably well to the replacement of the ICS by SIP. Exports are now three times the levels achieved at the beginning of the last decade. While SIP has only been fully operational for two years, there is no doubt that the program has had a significant beneficial impact on the performance and competitiveness of the industries in Australia, albeit there are different outcomes when the sectors are examined individually.

As a result of the phase-out of the ICS from 1998 and the political turmoil in Fiji in 2000, the scale benefits of exporting Australian textiles to Fiji, their transformation into apparel, and the subsequent re-importation of finished apparel into Australia duty free under the SPARTECA scheme, have been lost.

Most of the supply chains involving knitted fabrics and garments in these arrangements have been transformed into complete imports from China, thereby reducing the competitiveness of Australian suppliers and completely losing the derived demand for Australian textiles. This disruption has not been significantly altered by the complex scheme subsequently introduced by officials.

China Share of TCF Imports at FOB Value 1997/98 TO 2001/02



Source: ABS

The introduction of the 10 per cent GST without any offsetting reductions in other costs and charges reduced the competitiveness of all TCF&L products in the local market. This was due to clothing and footwear not being previously subject to wholesale tax. The practice adopted by the retail industry was to force suppliers to fully absorb the GST. This helped erode company margins and the ensuing cash flow problems helped undermine the viability of companies, especially small businesses.

8.2 INDUSTRY'S RESPONSE TO CHANGES IN THE OPERATING ENVIRONMENT

In response to the changes in both the global and local operating environment, the Australian TCF&L industries have been:

- becoming smarter and more innovative industries; and
- building capabilities and competencies in flexible manufacturing.

Despite some perceptions to the contrary, Australia is actually ranked in the top 40% of world competitiveness in textiles, being ranked 36 out of 107 countries according to the World Economic Forum.

8.2.1 SMARTER AND MORE INNOVATIVE INDUSTRIES

The trends towards increasing innovation, design intensity and improving supply chain relationships are clearly evident within the Australian TCF&L industries. They are leading to value creation in the Australian industry, increasingly building on skills in brand management, supply chain management and intellectual property creation, and its successful application to product and process innovation – activities that are emblematic of the knowledge economy. Our fashion industry is well recognised for these positive attributes.

From a global perspective, the pressure to increase innovation capabilities is particularly strong for relatively small-scale producers of fabrics, textiles and finished apparel, such as Australia. To succeed without the benefits of large scale domestic demand requires the development of other areas of competitive advantage resting upon high-level production competence and flexibility, allowing rapid response to opportunities, and product innovation leading to world class products tailored to specific market requirements.

It is the application of these knowledge inputs, in combination with the use of advanced design skills, that is driving shorter product development cycles. This allows more rapid responses to consumer demand and tastes. The ability to innovate at speed has the potential to become a powerful source of competitive advantage for the Australian TCF&L industry. But the innovative aspects of the industry introduce greater risks.

Given the changing nature of supply chain relationships, and the development of partnerships between manufacturers, suppliers and retailers, an enhanced ability to innovate has been needed not just from apparel and other consumer textile manufacturers, but also throughout the series of intermediate suppliers within the TCF&L industries, such as yarn, fabric and leather manufacturers. It has been the entire industry's commitment to innovation that has driven the industry's growing export performance despite Australia's isolation from major markets and exclusion from major trade blocs.

One consequence of this increased focus on innovation has been a broadening of the TCF&L industries' linkages with the wider Australian economy, including the science, technological and information technology systems. A notable feature of the emerging knowledge-intensive segments

of the industries is the willingness to engage in strategic partnerships with suppliers to develop new generation capabilities and products. This spreads product and process development capabilities across the supply chain.

Stronger relationships are also developing between companies and the universities, CRCs and the CSIRO. The potential for growth in these relationships is shown by the experience of Macquarie Textiles and Australian Wool Innovation outlined earlier. It should be noted that the original Post 2000 TCF program included a specific commitment to a “Technology Development Fund”. This was not realised as a result of Government cutbacks.

The industry has always had strong links to the trades and transport sectors of the economy. These links remain strong with the TCF&L industry remaining a leading-edge customer for these sectors. Further advances in the areas of technical fabrics and non-woven applications are ensuring significant growth in particular areas, ranging from health care through to civil engineering.

However, the industry now is also developing a new set of powerful linkages into the services sector of the Australian economy. It is drawing upon a wide range of information management and problem solving services that support its drive to continuously improve its performance and competitive position.

In addition to the new linkages that are arising from innovation and supply chain relationships, the export success of the industry is also forging new linkages into the global economy for participants from the TCF&L industries and those that supply materials, tooling and services to the Australian and international TCF&L industries.

8.3 INDUSTRIAL RELATIONS AND SECURITY OF SUPPLY

In order to raise their international competitiveness, the TCF&L industries have moved to implement highly-efficient, lean manufacturing processes such as ‘just in time’ and component delivery and batch manufacturing single units. The successful operation of such world class lean manufacturing systems depends upon reliability of supply at each stage of the chain.

The Australian industrial relations climate does not always support this essential supply stability.

While reforms to the industrial relations system in recent years have strengthened the ability to implement workplace arrangements better suited to the needs and circumstances of the individual workplace, the impact of these reforms has not always been immediately reflected at the enterprise level.

Many suppliers face a number of challenges that increase their vulnerability to industrial disputation. In particular, there is a proliferation of agreements of short duration, resulting in regular negotiations.

As a result of the restructuring and consolidation of the industries, there is often only one local supplier of a particular input. In addition to the lack of readily available competitive alternatives, this poses a range of risks and challenges for the industries in Australia.

9. THE GLOBAL POLICY ENVIRONMENT

The significant and widespread economic contributions made by the TCF industries have led to it being seen by both developed and developing countries as strategically important to the development and growth of their economies. Reflecting the industry's strategic importance for employment, wealth creation and broader industrial development reasons, it has been treated as a 'special case' by policy makers around the world for a long time.

The industry is still the focus of specific policy attention in many countries (and states in the USA). Governments continue to provide policy environments for the TCF industries which will attract and retain activity and investment in their jurisdictions.

The 'special case' nature of public policy towards the TCF industries in many producing countries has not changed. What has changed is the mix of policies used to support and facilitate the development of the industry.

Attachment B reports on Stage One of a study designed to identify and challenge barriers that impede the growth of the Australian TCF industries.

9.1 KEY TRENDS IN THE GLOBAL POLICY ENVIRONMENT

The influence of the WTO (formerly the GATT) in setting limits on, and altering the form of, industry support is forcing change in the policy environment. That influence shows itself through four main channels:

- general tariff negotiation rounds that have seen significant reductions in tariffs on manufactured products in the leading industrial countries since the Kennedy Round;
- WTO/GATT rules governing the application of production subsidies;
- the Trade Related Investment Measures (TRIMS) agreement which places disciplines on connecting investment incentives to production and exports; and.
- Rules for anti-dumping and countervailing measures, trade related intellectual property and disputes resolution.

Trade blocs – such as the EU, NAFTA, MERCOSUR and AFTA – have also become important as both promoters of intra-bloc trade and in some cases, most noticeably the EU, as rule-setters for the conduct of member countries in relation to industry assistance policy. It is important to recognise that the growth in world trade of TCF products has been focused within the various regional trade blocs, with trade across regions actually being constrained. Indeed, a large part of the EU and NAFTA rationale was to displace imports from China with those from nearby low-cost neighbours, where the target market controlled the production processes and demand was retained for the existing intermediate textile sectors in those markets.

Despite these WTO constraints and the constraints imposed by various trade blocs on member country conduct, Governments in both developed and developing countries continue to offer significant incentives to attract and retain TCF industries' activity and investment.

Both tariff and non-tariff barriers are widely used to protect the domestic market for local producers in TCF producing countries. A range of other policy tools have also been used to attract industry investment and to make countries and regions an attractive base for the export of products. Tax

concessions, grants, regional aid, R&D support, education and training support and production assistance have all been widely used.

Developed countries' TCF tariff barriers have gradually fallen to more modest levels. However, through the use of various instruments under the MFA and more recently the ATC, stringent controls have been exercised over the quantity of goods able to enter particular jurisdictions. While the policy emphasis has shifted to more direct support of investment, R&D, education and training and regional assistance, significant reliance is still placed on voluntary agreements, safety mechanisms and preferential supply agreements to maximise derived demand through the total supply chain.

9.2 FUTURE TRENDS IN GLOBAL TRADE RULES AFFECTING TCF TRADE

Developments in major multi-lateral trade forums such as the WTO and APEC or Australia entering into new bilateral free trade agreements will potentially impact upon the policy setting options relating to the TCF industries that are available to the Australian Government.

9.2.1 MULTILATERAL TRADE FORUM DEVELOPMENTS

Doha Round of Multilateral Trade Negotiations

The WTO Ministerial Conference at Doha agreed on the parameters of a new round of negotiations as part of the future work programme of the WTO. The round is due to end by 1 January 2005 at the earliest. Even if such a deadline is met, new rules would be unlikely to come into force before 2006, and they would set a target (of tariff reductions) to be reached no sooner than 2010. It is unlikely that this target for 2010 will be less than the scheduled rate of TCF tariffs to be implemented in Australia by 2005.

The Anti-Dumping Agreement and the Subsidies and Countervailing Measures Agreement will be subject to negotiations in the new round. While the focus in discussions on these agreements leading up to Doha was on special treatment demanded by developing countries, developed countries such as Canada and the EU may continue to push for the re-activation of the provisions on the deeming of serious prejudice and for specific non-actionable subsidies, in particular those meeting the criteria for disadvantaged regions. New provisions on non-actionable subsidies may have to go some way to accommodate the demands of developing countries for some provisions on developmental subsidies.

If the Subsidies Agreement were to be opened up, then there could be an attempt to revisit interpretation issues as well as remedy issues in respect of prohibited subsidies, in particular export subsidies. While such work would seek to clarify certain rules, it is unlikely to open up the rules to allow circumvention of the current prohibition on export subsidisation for developed countries. Australia will continue to face the problem of being subject to the same rules as other developed countries, but with the 'small country' problem of how to provide assistance to industries that must rely on export performance for scale.

9.2.2 THE DEVELOPMENT OF BI-LATERAL FREE TRADE AGREEMENTS (FTAs)

The growing network of bilateral FTAs across the world must necessarily impact on the market access conditions for third countries (in that the member countries of the FTA's gain preferential access into each others' markets at the expense of other parties). They will also continue to affect investment decisions in order to take advantage of improved access to larger markets.

It is important that Australia does not fully rely upon progress in trade liberalisation in multi-lateral trade forums, such as APEC and the WTO, to achieve greater access to international markets. Indeed, it is because of this focus in the 1990's that Australia has effectively been excluded from the major trading blocs that have developed over that period. The major western nations deliberately pursued such agreements as a strategic approach to opening their industries to broader competition, but maintaining opportunities in a larger collective market.

Progress to date has been slow in multi-lateral forums, so it is important that Australia explores the opportunities to develop FTAs with major trading partners. To this end, the TFIA welcomes recent initiatives towards the development of FTAs with Singapore and the USA, although there are very detailed sectoral needs to be addressed in finalising these arrangements.

9.2.3 IMPLICATIONS FOR TCF INDUSTRIES ASSISTANCE IN AUSTRALIA

In the short term, the only likely change in the current Doha MTN round is the reinstatement of more effective provisions for proving serious prejudice being caused by subsidisation, in particular the 5 per cent or some other threshold.

However, it may be that the serious prejudice issue will only be dealt with as part of any negotiations on the Subsidies Agreement in the new round. If that is the case, then any changes for subsidies may not be implemented for some years. Similarly, any changes in other areas, including investment rules, would not be for some years. If there were to be an agreement on trade and investment in the WTO, it is likely that Australia would join it, even if it did not involve all WTO Member countries.

However, as a general point, the rules as they affect the TCF industries have been basically evolutionary from GATT 1947 through to the WTO with clarifications and interpretations. Even if such a new agreement were to contain rules on performance requirements, radical changes would be unlikely to be negotiated.

In the shorter term, the temporary derogations being sought by developing countries may affect market access for Australian exports and even the competitive situation of imports in the Australian domestic market. However, most of these are time-bound and there will be little that can be done about it. Nonetheless, the outlook is for continued differential treatment being afforded to developing countries.

More promising avenues for improving market access for TCF exports would appear to be through the development of FTAs.

The Australian TCF sector advocates caution in considering any bilateral trade agreements that Australia may enter. We have a very small domestic market, and the local industry is extremely competitive. Consequently, any surge in imports arising from preferential market access into Australia due to an FTA would seriously disrupt the local market and undermine the viability of the Australian industry.

Equally though, because our capacity is greater than can be absorbed by the Australian market, export generation is very important to the local TCF industry. We recognise that FTA's can often accord our industry preferential access into other markets, hopefully of a much greater size than available locally.

Thus, there are clearly potential benefits of a FTA between Australia and other markets, and these may well outweigh the risks. But this will vary from market to market and from product line to product line. So, the implications of entering into a FTA with any country need to be carefully

considered, with each case considered on its merits. It is not appropriate in the context of this review to generalise on the benefits or otherwise of any FTA.

However, it does raise the interesting point that the intrinsic value of an FTA is only generated if the participating countries are able to gain preferential access into the other's market. This will only arise if there are substantive trade barriers in place.

Given the Australian Government's renewed interest in pursuing bilateral agreements, in conjunction with the multilateral pursuits under the WTO (and Doha), it would suggest that any further tariff reductions should only arise as a result of negotiated outcomes with our trading partners, where there is clear reciprocation in trade liberalisation from those partners. It would be counterproductive to reduce Australia's TCFL tariffs unilaterally post 2005, as a result of this Review, as it may eliminate our negotiating leverage in future trade talks.

9.3 BENCHMARKING THE GLOBAL POLICY ENVIRONMENT

In the past, there has been a tendency to focus almost entirely on benchmarking tariff barriers. This is perhaps understandable given the simple data requirements involved with such an approach. The difficulty is that the policy set typically used by countries to provide an attractive environment for the TCF industries generally comprises a number of significant instruments going well beyond the tariff. This means that focussing on the tariff alone can convey a totally misleading impression of support being provided to the TCF industries in different jurisdictions.

Therefore, to gain a more comprehensive understanding of the actual overall policy environment relating to the TCF&L industries it is necessary to consider a broad range of policy settings, including:

- policies impacting on market access;
 - tariffs
 - non-tariff barriers
 - trade bloc membership
 - anti-dumping duties
 - safeguard measures
- policies impacting on the attractiveness of the investment environment;
 - investment incentives
 - production supports
 - regional aid support
 - corporate taxes (holidays/rebates)
- policies supporting innovation capability and competence development;
 - research, product and process development support
 - education and training support

This brief examination of trends in the international policy environment and progress being made in major multilateral trade forums indicates that competition among nations to develop, attract and retain TCF&L industries activity is intense.

10. OPPORTUNITIES AND CHALLENGES

The Productivity Commission's inquiry comes at a time when the industry is responding to a number of challenges presented by the changing global and local operating environment. This has required the industry to alter many of its practices in order to increase its capacity for product and process development and to achieve higher levels of operating flexibility. The industry has had some noticeable recent successes in building exports and new ranges and niche products. Integral to the repositioning of the industry has been success in making improvements to its cost and quality competitiveness and its ability to develop desirable products.

However, despite improved costs and quality competitiveness, the industry has been struggling to maintain its level of domestic market sales of locally manufactured products. Intense import competition and low margins - along with indications of dumping practices- have all combined to undercut the domestic market sales base available to local manufacturers, even though most local operations are operating at levels equal to the highest international benchmarks.

The industry now stands at the threshold of a period of strong and sustainable growth. However, realising ambitious growth aspirations will not be easy. This chapter considers the key opportunities for the Australian industry and the challenges that will need to be overcome if these opportunities are to be realised.

10.1 Key opportunities for the Australian TCF industries

As the Minister for Industry, Tourism and Resources, The Hon Ian Macfarlane MP, has recently highlighted¹², innovation, international competitiveness and investment will be key future drivers of Australian industry performance and economic growth.

10.1.1 INNOVATION AND INTERNATIONAL COMPETITIVENESS: NECESSARY TO SECURE INVESTMENT

Innovation and international competitiveness are necessary if the Australian manufacturers are to secure their futures and contributions to the development of the Australian economy. However, it should be noted that maintenance of a domestic sales base is, and will remain, an essential prior condition for developing new products and processes.

Such new activities will in turn allow the Australian industry to translate its innovation capabilities and international competitiveness into sustainable growth.

The Australian TCF&L industries have been actively building the innovation capabilities that are essential if they are to develop new and desirable products tailored to meet customer demands both in Australia and overseas.

Similarly, for a small, open developed country such as Australia, international competitiveness revolves around high-level flexible manufacturing. Flexible manufacturing, which capitalise on capabilities in innovative product and process design, are essential to the industries' ability to produce ranges and products in relatively low volumes and to world-class quality and cost standards.

¹² The Hon Ian McFarlane MP, Speech to the Centre for Corporate Public Affairs, 21 March 2002

The Australian industry has embraced the challenge to build these capabilities and its strong recent export performance and the success of niche products, such as Blundstone boots and R.M Williams apparel, highlight the benefits of a strong focus on product innovation and manufacturing flexibility.

However, it should be noted that international competitiveness refers to more than just the competitiveness of the industry. It also entails the competitiveness and attractiveness of the Australian industry climate and the degree of international market access available to Australian producers.

The current policy settings in Australia mean that the investment climate is competitive with that in many other locations. However, lack of progress in terms of improving international market access could detract from Australia's future ability to maintain its activity levels.

Future industry growth can be secured only through the combination of the industry building competitive strengths in innovation and flexibility and the existence of a globally competitive policy environment.

The industry now has the opportunity to build on recent improvements to establish Australia as a recognised centre of product development and production. Strong industry growth will follow the establishment of Australia as:

- a recognised centre of innovation;
- possessing high levels of skill in flexible manufacturing; and
- a country with an internationally competitive industry climate.

10.1.2 BECOMING A CENTRE FOR PRODUCT DEVELOPMENT AND PRODUCTION

Leveraging product development capabilities and skills in flexible manufacturing are necessary conditions for Australia to become a centre for TCF&L manufacturing and exports. A significant increase in domestic market sales is possible as the industry expands its product offerings to better meet local market demand. This relies upon taking advantage of flexible manufacturing and product development skills to make more design and quality intensive and efficient products.

Increased export sales are also a major potential avenue for industry growth. However, the continuation of the strong recent export performance achieved by the industry will almost certainly require the development of new export markets. The Chinese and ASEAN markets present a significant export opportunity for the Australian industry if improved access to these markets is secured through either multi-lateral or bi-lateral trade agreements.

The expansion of exports to the US, South Africa and entry to South American markets are further opportunities for export growth.

10.2 CHALLENGES TO REALISING OPPORTUNITIES

The Australian TCF industries face a number of significant areas of challenge in the years ahead. These include:

- the need to steadily increase the industry's innovation capabilities;
- continued pursuit of greater manufacturing flexibility;
- promoting continued growth in the domestic product share of the Australian market;
- enhanced access to key international markets;

10.3 CHALLENGES IN INCREASING INNOVATION

Continued expansion of innovation capabilities throughout the industry relies upon access to a sizeable design skills pool. A shortage of new designers, who have been appropriately trained in the use of the latest computing tools, would severely restrict the future growth of the industry. In the future, not only will manufacturers be generating greater demand for designers, but suppliers and most likely retailers will also require greater innovative capabilities. A run down in Australia's design skills base must be avoided.

10.4 CHALLENGES IN ACHIEVING GREATER MANUFACTURING FLEXIBILITY

The innovative capabilities of the industry, including those of local designers and suppliers, are crucial to the pursuit of greater product differentiation and manufacturing process flexibility. The level of innovative capabilities of suppliers will significantly impact upon the degree to which these intermediate suppliers remain competitive.

The ability to implement work practices to support flexible manufacturing systems will also be crucial to the viability of the industry. The industrial relations climate has improved in recent years, and the employers and the employees must continue to work together to ensure the ability to produce small product runs in a cost effective way and to rapidly alter production plans to capitalise on emerging niche market opportunities.

10.5 CHALLENGES IN IMPROVING INDUSTRIAL RELATIONS

The successful operation of world-class lean manufacturing systems, including 'just-in-time' inventory management, depends upon reliability of supply at each stage of the supply chain.

The industry cannot back away from the introduction of systems such as 'just-in-time' supply if it is to be an internationally competitive manufacturer.

The TFIA refers the Commission to submissions from other organisations more involved in industrial matters for further information.

10.6 CHALLENGES TO A VIABLE DOMESTIC MARKET SALES BASE

Recent years have seen the erosion of the local producers' domestic market share from about 70% to less than 46%.

Unless this erosion of the domestic TCFL market is reversed, the future prospects of the Australian industries will be severely undermined. A stable domestic market of sufficient size is necessary to underpin the business case for new production developments.

A number of areas of Government policy have the potential to significantly impact on the size of the domestic market, both in absolute terms and in relation to the size of the market for domestic production.

Relevant policy areas include:

- positive support mechanisms;
- tariff policy;
- government purchasing arrangements;
- environmental controls;
- regional industry policy initiatives; and
- export encouragement.

10.7 CHALLENGES TO FURTHER EXPORT MARKET GROWTH

Australia has shown that it is able to effectively enter and retain international markets where there is a level playing field. However, the number of such open markets for TCFL products around the world is severely limited. Therefore, if the export growth witnessed over the past 10 years is to continue, progress will need to be made in relation to improving access to key international markets such as China and ASEAN.

Failure to secure, through either multilateral or bilateral trade negotiations, better access to highly-protected regional markets will deny the Australian industry the chance to capitalise upon its innovation, cost and quality competitiveness and its ability to tailor products to meet specific target market conditions. If greater market access is obtained, the growth prospects for the Australian industry would be significantly enhanced. Without it, Australia will become a less attractive location as Australian manufacturers will locate new and replacement facilities in countries that can offer access to larger markets.

10.8 CHALLENGES TO CREATING AN ATTRACTIVE INVESTMENT ENVIRONMENT

Realisation of any of the above threats will serve to decrease the attractiveness of investing in Australian TCF industries. However, even if each of these threats is avoided, if the degree of support for new investment and innovative activities offered by Government declines significantly relative to that available in competing locations, the viability of the Australian industry will be threatened.

The Australian TCF&L industries have reached an important junction. The industry has been actively improving its own performance to make it globally competitive. The success of these efforts is borne out by the significant improvements over the past decade in quality levels and production efficiency that have led to major export success.

The industry is working to position itself so that once global free trade or near free trade becomes a reality, Australia will be able to thrive as a major production and innovation centre. But this position of a fully-liberalised world trading environment is still a long way off - at least 10 years.

Given a globally competitive policy environment, the industry has the potential to become a major driver of future economic growth in Australia.

ATTACHMENT A..... ECONOMIC MODELING: PRELIMINARY REPORT

ATTACHMENT B.....MARKET ACCESS REPORT