

The Victorian Government's

Initial Policy Contribution

**to the Productivity Commission's 2003 Inquiry into
the Textiles, Clothing and Footwear Industry**

The Victorian Government's Initial Policy Contribution

1. Context

- 1.1 Since the Productivity Commission's last Textiles, Clothing and Footwear (TCF) Inquiry in 1997, Victoria's TCF industry has altered considerably. Increased international competition, new technologies and products, changing demands, the integration of global supply chains and other forces have resulted in both the entry and the exit of a number of key manufacturers.
- 1.2 Victoria is a key centre for TCF manufacturing in Australia, employing 47% of Australia's TCF workforce and producing 50% of the industry's value added (Australian Bureau of Statistics 2000-01). The TCF industry in Victoria is long-standing and, despite significant restructuring in recent years, remains of major importance to the State's economy. In 2000-01, the 2,500 TCF firms in Victoria contributed:
- 27,300 jobs (15% of which are in regional Victoria);
 - \$873.40 million in wages and salaries;
 - \$4.47 billion in turnover or 2.6% of Victoria's Gross State Product;
 - \$1.30 billion in value added; and
 - \$1.09 billion in exports, some 5.9% of all goods exported.
- 1.3 The pace of change in the industry, brought about by progressive trade liberalisation over the past 20 years, will continue to accelerate, with new World Trade Organisation commitments, regional and bilateral trade agreements and the increased global integration of companies. In order to achieve success in this new environment, Victoria's TCF industry will have to continue to adjust to the effects of increased international competition and trade liberalisation.
- 1.4 Cost competitiveness will no longer be sufficient to succeed - producers will need to focus on new product development in areas of competitive advantage. Success in this new environment will require embracing innovation and knowledge creation in the workplace as well as stepping up investment in research and development (R&D), new technologies, new processes and ways of doing business.

2. The Victorian Government's Vision for the TCF Industry

- 2.1 The Victorian Government has a vision that the TCF industry of the future will be flexible, innovative and sustainable. TCF firms will be knowledge intensive, internationally focused and globally competitive. This vision not only reflects recent changes in the industry but also outlines the direction in which the industry must head in order to prosper and grow.
- 2.2 The Victorian Government's view for the future of the industry has been informed by the *Textile, Clothing, Footwear and Leather Industry Strategic Audit* undertaken during 2000 and is presented in detail in *Victorian Textile, Clothing, Footwear and Leather Manufacturing Industry: An Industry Plan from the Victorian Government* published in 2002.
- 2.3 For the industry to succeed in the future, the Victorian Government believes that firms will have to operate so as to:

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- position themselves as suppliers of niche rather than commodity products;
- link with global supply chains;
- use a varied production mix, including local short-run production;
- invest in knowledge intensive research and design;
- produce high quality manufactures;
- focus on customer service; and
- develop export markets.

2.4 Today the TCF industry is in transition from its old domestically integrated supply chain structure to a new form. Increasingly, each sector is becoming its own stand-alone industry that imports, exports and services a diverse range of customers. The four key manufacturing sectors – (1) early stage processing, (2) apparel, (3) textiles, leather and furnishings, and (4) technical and non-woven textiles – now support a high value-added (5) services sector.

2.5 A key component of the industry is the currently emerging high value-added TCF services sector. For this services sector to grow it is essential that a critical mass of the TCF manufacturing base remains in Australia.

2.6 By providing a range of highly targeted industry assistance programs, the Victorian Government actively supports the TCF industry in Victoria to achieve this vision. The Victorian Government considers that the Commonwealth Government should have a similar vision for the industry, and accordingly continue to support the industry.

3. Requirements for a Viable Long-Term TCF Industry

3.1 The Victorian Government strongly encourages the Commonwealth Government to develop a comprehensive TCF industry assistance package that focuses on:

- (i) supporting labour market adjustment;
- (ii) maintaining a critical mass of the manufacturing base;
- (iii) improving export market access;
- (iv) providing incentives for increased innovation and R&D;
- (v) developing a highly skilled and collaborative workforce; and
- (vi) encouraging inter-firm collaboration.

3.2 This contribution outlines the six key policy issues that the Victorian Government considers critical to the future viability of the TCF industry and the appropriate actions the Commonwealth Government should take to support industry. A more detailed discussion of each issue raised can be found in the attached Background Paper.

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(i) Support Labour Market Adjustment

- 3.3 Since the last industry inquiry in 1997, the TCF workforce in Victoria has reduced significantly in number and changed significantly in terms of employment mix. These adjustments have affected a number of small regional centres and resulted in the social dislocation of some of Victoria's most vulnerable socio-economic groups. As well as a social cost, these adjustments also carry a significant fiscal cost.
- 3.4 Full account of the unique situation that retrenched TCF workers encounter should be factored into the Productivity Commission's industry review. Studies such as those by Webber and Weller (2001) clearly indicate the extent of the dislocation resulting from these workforce adjustments. For example, of the 605 former TCF sector workers studied in the years 1993 to 1997, only one third of the workers found a secure new job of similar or better status and conditions to their TCF job, while about a third of workers were relegated to insecure, intermittent employment. The other third did not work again after retrenchment.
- 3.5 As the TCF industry adjusts to meet the challenges required to achieve long-term viability, the nature of its labour requirements will continue to change. The Victorian Government considers that it is essential that the Commonwealth facilitate the resultant labour market adjustment. The Commonwealth Government should develop a range of new programs that assist both firms and workers to better manage the labour market adjustment processes that will continue to occur. Some previous programs have not been successful. Webber and Weller (2001) argue that the Commonwealth Government TCF Labour Adjustment Programs, introduced in the 1990s, were ineffective as they were focused too much on retraining at the expense of job placement.
- 3.6 The Victorian Government has commissioned the National Institute for Economic and Industry Research to examine the labour mobility of displaced TCF workers in Victoria from 1991 to 2001 and the results of this work will form part of the Victorian Government contribution in June 2003. The study will contribute to our understanding of whether:
- displaced workers have been able to find commensurate new employment, especially in regional Victoria;
 - previous structural adjustment programs have helped the transition process; and
 - job losses have resulted in increased welfare payments and unemployment costs.
- 3.7 Related to labour market adjustment is the increasing trend for manufacturers, particularly in the apparel sector, to utilise outworker labour in order to maximise flexibility in labour intensive operations. There are no reliable figures on the extent to which outworkers are utilised or their working conditions. However, available evidence suggests that outworkers have low rates of pay compared with other TCF workers and less occupational health and safety protection (Parliament of Victoria 2002). The Victorian Government has made a commitment to assist outworkers and the *Outworkers (Improved Protection) Bill 2003* has been introduced to the Victorian Parliament.

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3.8 The Victorian Government believes that the issues affecting outworkers, such as pay rates and working conditions, need to be addressed at a national level. As a start, the Productivity Commission should undertake national research to examine the magnitude of the outworker industry, and identify ways to improve protection of outworkers.

(ii) Maintain a Critical Mass of the Manufacturing Base

3.9 In order to ensure the success of the emerging high value-added TCF services sector, it is essential that a critical mass of the TCF manufacturing base remains in Australia.

3.10 Tariff levels will be an important factor in determining the future size of the TCF manufacturing base. However, given the globally integrated TCF marketplace that Victorian companies are now competing in, tariff levels are only one of a number of issues that will determine the long-term viability of manufacturing in Australia. Issues such as export market access, supply chain management and innovation will also be important. The Victorian Government strongly believes that the Productivity Commission should address the tariff level issue in this broader context, rather than determining future tariff levels independently of these other key issues.

3.11 The Victorian Government has commissioned research that will assist in finalising its position on tariff levels for each of the different TCF sectors. The Government's position will be articulated in the Victorian Government's contribution in June 2003. From the outset, however, the Victorian Government will oppose any future unilateral reduction in tariff levels unless progress is achieved on the six key policy issues outlined in this paper.

3.12 In order to further support the manufacturing base, the Victorian Government contends that the Productivity Commission should also investigate:

- whether the Commonwealth Government's Expanded Overseas Assembly Provisions Scheme to support the local textile manufacturing industry should be extended beyond 2005; and
- how dumping impacts on the viability of the local manufacturing base and whether reforms to existing anti-dumping legislation are needed to ensure a fairer trading environment.

(iii) Improve Export Market Access

3.13 As world trade liberalisation continues, TCF import penetration will increase and the marketplace will become more competitive. Accessing export markets will be key to Victoria's TCF industry success.

3.14 Tariff and non-tariff barriers are integral to the debate about export market access. While the level of protection afforded to Australia's TCF industry is high compared with other Australian industries, Australia's TCF industry today has no quotas, relatively low tariffs and no substantive non-tariff barriers. Research undertaken by Apical International (2003) indicates that, compared with our competitors, Australia's TCF industry is highly liberalised.

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The Victorian Government strongly believes that future debate regarding tariff levels in the TCF industry should be viewed in an international context.

- 3.15 The Victorian Government considers that the Commonwealth Government should actively pursue the interests of Victorian TCF exporters as it negotiates future bilateral and multilateral trade agreements. To this end, the Victorian Government is concerned that any future unilateral reductions in TCF tariffs by the Australian Government will unnecessarily disadvantage Australia's negotiating position. If Australian TCF tariffs are reduced unilaterally, and Australia's negotiation partners are already able to import relatively freely, Australia will have limited leverage in seeking TCF tariff and non-tariff barrier reductions in future trade negotiations.
- 3.16 The most significant barrier to export for the TCF industry in many markets is the range of quotas, restrictions and other non-tariff barriers. The impacts of these are difficult to measure but need to be thoroughly investigated.
- 3.17 Export market access can also be increased through the provision of Commonwealth export assistance programs. Since the abolition of the TCF Market Development Fund in early 2002, the only export assistance provided to the TCF industry by the Commonwealth is through Austrade export assistance programs. While these generic programs, particularly those focusing on small to medium enterprises, are useful to TCF exporters, the Victorian Government considers the Commonwealth Government should examine the need for a TCF-specific export assistance program. The Victorian Government encourages the Federal Government to revive the TCF Market Development Fund but recommends that the guidelines be reviewed to ensure that all programs funded have a clear export focus.

(iv) Increase Innovation and R&D

- 3.18 Innovation and R&D are key issues for the TCF industry if it is to achieve its long-term vision. The Commonwealth's National Policy Framework for the TCF Industry promised to deliver two programs to support TCF industry innovation and R&D.
- 3.19 The first, the TCF Technology Development Fund, was established to support the development of new product and process technologies. The program, designed to develop industry-based rather than firm-based infrastructure, was abolished in 2002.
- 3.20 The second, the Strategic Investment Program (SIP), began in July 2000 and is due to end on 30 June 2005. Developed following extensive consultation with industry, the SIP aimed to assist industry adjust to international competitiveness and was designed to promote increased investment by the TCF industry in capital plant and equipment, and R&D including innovative product development. It was also designed to provide assistance for reconfiguration of company operations.
- 3.21 The Victorian Government supports the extension of a SIP-like structural adjustment program beyond 2005, to encourage innovation in the TCF industry. However, any extension

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or modification to the scheme should be preceded by a full review of the existing scheme. The Victorian Government considers that some of the issues which need to be examined include:

- whether product design and process improvements should be included alongside product development in the definition of innovation;
- whether innovation should be measured at the firm or industry level;
- whether a competitive advantage can be gained by firms using second hand equipment in addition to those upgrading facilities using new technology; and
- whether a threshold level of investment is appropriate, as this may result in small firms, particularly in the apparel sector, not being able to access funding.

(v) **Develop a Highly Skilled and Collaborative Workforce**

3.22 The Victorian Government is committed to developing a highly skilled workforce in the TCF sector. This commitment is demonstrated through a \$2.5 million annual commitment to fund the International Fibre Centre (IFC) until 2006. The IFC focuses on filling identified gaps in education and training to meet the needs of targeted sectors in the TCF industry.

3.23 Workforce education and training will continue to be important as the TCF industry becomes more innovative and more export focused. The employment mix in the industry, particularly in the TCF services sector, is changing. To ensure the industry is able to successfully meet these challenges, the Victorian Government considers that the Commonwealth Government should encourage and support greater industry investment in workforce capabilities.

3.24 The National Framework for Excellence in TCF Training, implemented in 2000 and abolished in 2002, in practice did not effectively deliver training services to the Victorian TCF industry. The Victorian TCF industry requires firm specific, tailored education and training services. The Victorian Government encourages the Commonwealth Government to set up another model that better addresses the training needs of the industry.

3.25 In addition, the Victorian Government urges the Commonwealth Government to develop an Industrial Relations policy framework that focuses on collaboration in the workplace to increase the overall productivity of the TCF industry.

(vi) **Encourage Inter-Firm Collaboration**

3.26 A key ingredient for the viability of the TCF industry is the development of domestic and international links within industry. The Victorian Government has already implemented a number of programs to encourage inter-firm collaboration within Victoria. To ensure the success of the Australian TCF industry, this issue needs to be addressed at the national level.

3.27 The Victorian Government considers that the Commonwealth could provide greater support in this area by:

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- implementing programs to support growing TCF firms to access the knowledge necessary to become part of global supply chains; and
- establishing programs to foster greater collaboration between firms in the TCF industry that have traditionally competed rather than cooperated.

4. Summary

4.1 The Victorian Government believes the TCF industry has a strong and viable future.

4.2 However, this viability is based on the industry continuing its transition to become internationally competitive, with a focus on flexible, innovative and sustainable companies producing value-added products.

4.3 In assisting the TCF industry to achieve a vision of long-term certainty and international competitiveness, the Victorian Government believes it is imperative that policies and programs be adopted to:

- (i) support labour market adjustment;
- (ii) maintain a critical mass of the manufacturing base;
- (iii) improve export market access;
- (iv) provide incentives for increased innovation and R&D;
- (v) develop a highly skilled and collaborative workforce; and
- (vi) encourage inter-firm collaboration.

4.4 These are all areas where the Commonwealth Government should take the leadership. Any future unilateral reduction in tariffs should not be countenanced unless there is overall progress in each of the above.

References

Apical International (2003), *Market Access Industry Participation Program*, commissioned by the TFIA.

Australian Bureau of Statistics (2000-01), *Manufacturing Management Units, Summary of Operations by ANZSIC Subdivision, Australia, States and Territories*.

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Background to the Initial Policy Contribution

**to the Productivity Commission's 2003 Inquiry into
the Textiles, Clothing and Footwear Industry**

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1. Introduction

- 1.1 This is a background paper that supports the Victorian Government's Initial Policy Contribution to the Productivity Commission's 2003 Inquiry into the Textiles, Clothing and Footwear Industry.
- 1.2 Much of the information presented in this paper is based on the Victorian Government's Industry Plan (*Victorian Textile, Clothing, Footwear and Leather Manufacturing Industry: An Industry Plan from the Victorian Government*) and the Australian TCF Forum Strategic Plan.
- 1.3 The paper is divided into seven sections:
- Section 1 provides a brief overview of the Background Paper;
 - Section 2 defines the key elements of the industry and identifies the economic benefits that the TCF industry brings to Victoria;
 - Section 3 discusses the traditional structure of the TCF industry in Australia and how it is changing;
 - Section 4 specifically addresses how the international trading environment has changed in recent years;
 - Section 5 identifies how Victorian TCF firms have responded to these changes and argues that more comprehensive labour market adjustment programs are required;
 - Section 6 sets out a vision for the future of the TCF industry in Australia; and
 - Section 7 outlines the type of policy support both the Commonwealth Government and the Victorian Government can provide to assist industry to achieve this vision.

2. Overview of the TCF Industry

Definition of the TCF Industry

- 2.1 While the paper will discuss issues affecting the TCF industry in general, it is important to note that the TCF industry is made up of a number of diverse and heterogeneous industries.
- 2.2 The five key industry sectors are:
- early stage processing - early stage production of wool, cotton, leather, other animal fibres, and synthetic fibres;
 - apparel - manufacturing of textile fabric right through to the design, cutting and assembly of clothing, footwear and accessories;
 - textiles, leather and furnishings for household and commercial premises - manufacturing and design of finished textiles for uses such as carpets, bedding, towels and furniture upholstery; and
 - technical and non-woven textiles - products manufactured primarily for their technical performance and functional properties rather than their aesthetic or decorative characteristics.
 - services – key services to the industry include advertising and marketing, scientific research and development, logistics and engineering and design.

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2.3 Increasingly the definition of the TCF industry is being expanded to encompass an overarching services sector. Key services to the industry include advertising and marketing, scientific research and development, logistics and engineering and design.

The Victorian TCF Industry's Relative Market Size

2.4 Victoria is a key centre for TCF manufacturing, accounting for almost half of Australia's TCF industry. Victoria employs 47% of the national TCF workforce and produces 50% of the industry's value-added production¹.

2.5 Australia, however, is only a small player in the global TCF market, with a 0.6% share of the textiles export market and only 0.1% share of the clothing export market in 2001. World exports of textiles are dominated by the European Union, China, Hong Kong, the Republic of Korea and the United States, which collectively accounted for 69% of the global US\$147.0 billion market in 2001. In 2001, the European Union, China, Hong Kong and the United States dominated the US\$195.0 billion clothing export market.

TCF's Contribution to the Victorian Economy

2.6 Victoria's TCF industry is long-standing and, despite significant restructuring, it is still of major importance to the State's economy. In 2000-01, the 2,500 TCF firms in Victoria contributed:

- 27,300 jobs (15% of which are in regional Victoria);
- \$873.40 million in wages and salaries;
- \$4.47 billion in turnover or 2.6% of Victoria's Gross State Product;
- \$1.30 billion in value added; and
- \$1.09 billion in exports, some 5.9% of all goods exported.

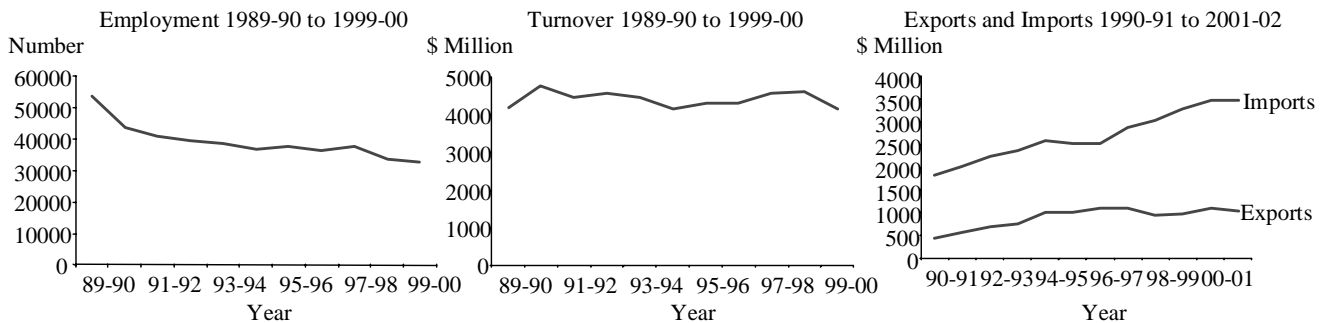
2.7 TCF was once a major industry in Victoria, supporting a large workforce and contributing significantly to State production. In recent years the industry has been in transition and Victoria's official TCF employment levels have declined significantly. Employment fell from 53,545 in 1989-90 to 27,300 in 2000-01². Arguably, this figure under-represents the TCF industry's contribution to GSP, as it does not account for the increasing number of services to the TCF industry or the number of outworkers in the industry.

1 ABS, Manufacturing Management Units, Summary of Operations by ANZSIC Subdivision, Australia, States and Territories, 1998-99 to 2000-01

2 In 2000-01 the ABS reviewed its TCF data collection methodology resulting in small discrepancies between pre and post 2000 calculations.

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Diagram 1: Victoria's TCF Industry Profile



2.8 Along with general industry rationalisation and resulting employment declines, another key change in the industry has been the strong growth of imports. Import penetration is now very high in a number of sectors, particularly apparel, and this has resulted in added pressure on the local marketplace. Despite these general developments, there have been some positive signs in the industry. In particular, exports have continued to grow during the last decade to \$1.04 billion in 2001-02. TCF exports account for 5.8% of all goods exported from Victoria. Turnover for the industry has remained fairly constant during the last decade.

Other Benefits to Victoria

2.9 The TCF industry is important to Victoria not only because it provides jobs and contributes to production and exports. The industry provides a range of non-traditional economic benefits to the economy.

2.10 For example, in a number of niche areas, Victorian companies are developing an **international reputation** for high quality, innovative products. Brand names such as Rip Curl, Country Road and Vixen are drawing attention to Australia's design capabilities. These companies are helping to promote Victoria's international reputation as a value-added manufacturer and in turn promote the industry internationally and develop Australia's export capabilities.

2.11 Increased price competition in the TCF marketplace has forced Victorian companies to seek new ways to differentiate themselves. While Rip Curl, Country Road and Vixen are **adding value** through branding and design, like other Victorian companies they are also focusing on product quality and customer service. Companies selling higher value-added products are usually able to charge higher prices and ensure greater profit margins on sales.

2.12 A number of Victorian TCF companies are **focusing on innovation**. These companies have been finding new and better ways to do business, creating new products and services, applying new technologies to solve problems, and using existing products and technologies to meet new needs. ADA is an apparel manufacturer based in Bendigo that was formed in 1995 from a privatised division of Australian Defence Industries. ADA has been growing its high technology protective clothing business. It has developed significant intellectual property and invested in new technology and R&D to develop its ballistics, fire, smelter and weatherproof

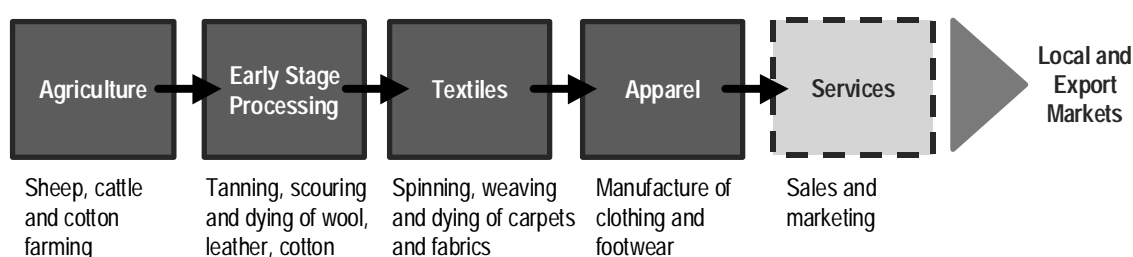
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outwear garments. These niche market products are exported to customers in Asia and the USA.

- 2.13 As TCF technology has increased, the nature of employment in the TCF industry has been changing. New technologies and manufacturing systems mean that more knowledge-based positions are available and that the industry is paying higher wages. The gradual 'knowledge intensification' of the TCF industry means that **developing workforce skills and capabilities** is becoming increasingly important to employers. As a result Victoria's TCF industry is investing more than ever before in workforce skills and training. ADA employs 155 staff in its Bendigo plant and 35 in a sales and marketing office in Coburg. The company has a highly skilled and flexible workforce. Training is important and most employees are multi-skilled and work in self directed teams. Employees earn above award salaries and are eligible for company wide production bonuses. ADA provides a **collaborative work environment** and has an active consultative committee including workers, unions and management that meets weekly to share information and voice concerns.
- 2.14 The TCF industry can be seen as a series of chains in which different segments of production and distribution are integrated to produce a final global product. Geographically these **production or supply chains** span many continents and reach across regional and national boundaries. Victorian companies like ADA, which is only one of four companies in the world licensed to manufacture garments using Du Pont fabrics, are increasingly joining global supply chains and gaining exposure to world's best practice, new technologies and ways of doing business.
- 2.15 The above case studies demonstrate that a number of Victorian TCF companies are excelling in the marketplace and improving their international competitiveness by: developing high quality, innovative products; focusing more on branding and design; joining global supply chains and investing more than ever in workforce skills and training.

3. The Traditional Structure of Victoria's TCF Industry

Diagram 2: Traditional TCF Industry Structure 1950s – 1980s

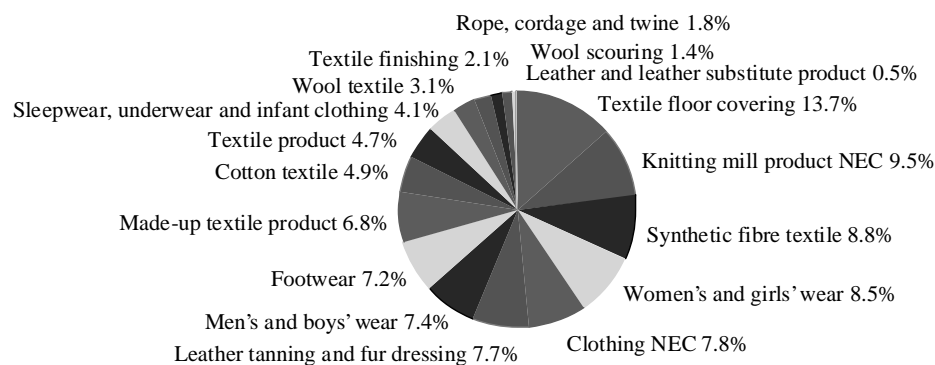


- 3.1 The above diagram seeks to characterise the TCF industry as it was in the 1950s through to the 1980s, before the industry globalised. The key characteristics of the market during this period were the high levels of protection afforded the industry and the fact that it was almost entirely domestically integrated.

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- 3.2 Domestic integration means that local farmers grew the cotton, the cattle or the wool, early stage processors scoured, tanned, dyed and spun as appropriate and sold the product to the textile or apparel manufacturers, whose final product sold primarily to domestic but also to some international markets. The industry was supported by a very small retail-based services sector.
- 3.3 As a result of this integration the Victorian TCF industry was diverse with companies in each and every stage of production. As Diagram 3 below indicates, this legacy is reflected in the structure of the industry today. Victorian manufacturers operate within a vast number of sectors. This diagram incorporates the Australian Bureau of Statistics' data collection categories for TCF manufacturing. It does not include data related to the TCF services industry and therefore does not provide a full picture of today's TCF industry.

Diagram 3: Victorian TCF Industry Turnover by Sub-Sector 1999-2000



Total 1999-2000 = \$4,169 million

- 3.4 Victoria's TCF industry was built on a foundation of protectionism. The domestically integrated supply chain was protected from international competition by a regime of tariffs, quotas and bounties. As a result, import penetration was very low. However, this changed dramatically as globalisation and trade liberalisation took effect in the 1980s and 1990s.
- 3.5 During the 1980s, the labour intensive large-scale production, which had previously been based in developed countries like Australia, progressively moved to low cost developing countries. This broke Victoria's domestically integrated supply chain and threatened the future of the industry. No longer could Victorian farmers be certain that their produce would be purchased by local early stage processors as a large proportion of apparel and textile manufacturing was not being undertaken overseas. This scenario occurred in all developed countries, and globally the TCF industry changed fundamentally.
- 3.6 Before setting out a vision for Victoria's future TCF industry in section 6, this paper addresses the changes that have occurred in the international trading environment in section 4 and how Victorian industry has responded in section 5.

4. The Changing International Trading Environment

4.1 Much like Australia, the TCF industry globally has traditionally been highly protected. For the last 40 years, world TCF trade has been dominated by restrictive import quotas in Europe and the US and high tariff and non-tariff barriers in the major exporting locations of Asia and the Indian sub-continent. However over the last 20 years, trade has been gradually liberalised (though not universally), globalisation has increased and as a result, international competition is greater than ever before.

World Trade Organisation Rules

4.2 Since 1995, world trade in textiles and clothing has been governed by the World Trade Organisation (WTO) Agreement on Textiles and Clothing. The Agreement on Textiles and Clothing seeks to bring world trade in textiles and clothing within the ambit of WTO rules. It stipulates that all WTO member countries must eliminate restrictive quotas on TCF products by 1 January 2005.

4.3 It is generally acknowledged that once quotas have been eliminated, the next step for the WTO is to focus on tariff and non-tariff barrier reduction. Reducing or, as appropriate, eliminating tariffs and non-tariff barriers is a key issue of the work program emanating from the November 2001, WTO Ministerial Conference in Doha, Qatar.

4.4 At this stage it is not clear how the WTO will approach the tariff and non-tariff barrier issues. The US recently proposed a plan to eliminate global tariffs on non-agricultural products by 2015. In November 2002, the US put a proposal to the WTO to:

- eliminate low tariffs of 5% or less by 2010;
- eliminate tariffs in highly traded goods as soon as possible, but no later than 2010; and
- harmonize all other tariffs, including TCF tariffs, to less than 8% by 2010 then eliminate them by 2015.

4.5 It is highly likely that further tariff reductions will occur globally. While the timing of WTO initiatives have not yet been determined, it is clear that the WTO will continue to push ahead with its trade liberalisation agenda. Australia, as a signatory to the WTO Agreement on Textiles and Clothing will be subject to these international changes.

Tariff Barriers

4.6 In line with the WTO agenda, the Commonwealth Government's level of assistance to the TCF sector declined significantly during the 1990s. Tariff levels fell, quotas were abolished and production bounties were terminated. In the footwear sector Australian tariffs fell from 45% in 1990 to the current level of 15%.

4.7 In 1997 the Commonwealth Government reviewed its trade liberalisation strategy and decided that Australia's TCF industry was being unnecessarily disadvantaged because Australia was

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reducing tariffs faster than its competitors. Consequently the Government resolved to legislate tariff reductions and implement a National Policy Framework for the TCF Industry. The Framework commenced on 1 July 2001 and will operate until 30 June 2005. The Framework provided for:

- a maximum tariff rate of 25% by 2000;
- a pause in tariff reductions until 1 January 2005; and
- a range of adjustment programs, including the Expanded Overseas Assembly Provisions (EOAP) and the Strategic Investment Program (SIP).

4.8 While Australia has been pushing ahead and working towards the overarching goal of free trade set by the WTO, many other countries have maintained their protectionist stances. As Table 1 below indicates, Australia's efforts to date have not been matched by Australia's trade competitors. The Apical International report identified particularly high tariffs of 30% plus on TCF manufactures in developing countries such as India, Vietnam, Pakistan and China. In developed countries such as the US, Canada and Japan, TCF tariffs are mostly around 15%, with some higher tariffs on individual items.

Table 1: TCF Tariffs for Selected Products, Apical International³

Sector	Product	Tariff	
Apparel Textiles	Circular knitted cotton containing 5% or more of elastometric yarn	Mauritius 80% Vietnam 40% India 35% Pakistan 30% Israel 27.4%	Mexico 23% China 22% South Africa, Thailand and Malaysia 20% Japan 15.7%
Industrial Textiles	Woven Nomex	Vietnam 40% Pakistan, China and India 30%	South Africa 22% Malaysia and Thailand 20%
Footwear	Protective metal toe-cap footwear	Japan 60% (without quota) Vietnam 50% Thailand and Papua New Guinea 40% Malaysia and South Africa 30%	Another work-boot also with a protective metal toe-cap attracts a tariff of 37.5% upon entering the US
Leather Apparel and Handbags	Apparel and clothing accessories	Vietnam 50% India and Mexico 35% South Africa and Thailand 30%	Japan 20% Korea 16% Indonesia and Canada 15%
Woollen Apparel	Men's knitted woollen cardigans	Vietnam 50% South Africa 40% Israel 36%	India 35% Thailand and Pakistan 30% US 16.3%

4.9 The Apical International report indicates that Australian companies still encounter significant tariff barriers when exporting TCF products. Identifying ways to increase export market access is one of the major challenges that the Commonwealth Government needs to address in the future.

³ Apical International, *Market Access Industry Participation Program*, 2003, commissioned by the TFIA.

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Non-Tariff Barriers

- 4.10 Gale Pacific, a Melbourne based innovative manufacturer of advance polymer fabric products for shade cloths and related environmental protection products, is an example of a successful Victorian TCF exporter. It has been exporting to the USA, Canada, Germany, Japan, Mexico, Singapore and the United Arab Emirates for a number of years. In 2001 Gale Pacific approached the Commonwealth Government seeking assistance to access the Californian market. At the time California had regulations that favoured local industry and made it virtually impossible for exporters to penetrate the marketplace. The Commonwealth Government was unable to assist and eventually Gale Pacific found its own market access solution, it purchased a US subsidiary. While this solution was an option for Gale Pacific, it is unrealistic to expect that new or small companies would be able to make a significant capital investment of this sort to establish export market access. Victorian exporters face these non-tariff barrier market access issues every day in countries all around the world. The Victorian Government encourages the Productivity Commission to undertake further investigation into non-tariff barriers and encourages the Commonwealth Government to develop a strategy to systematically reduce non-tariff barriers in key markets.
- 4.11 In addition to explicit tariff barriers, many countries have non-tariff barriers that restrict trade. These barriers are increasingly being used to protect local industry in countries where official tariffs are being phased out, and this hinders the ability of Australian producers to access these markets. For example, anecdotal evidence collected from Australian exporters by Apical International found that the US and the European Union have recently been introducing onerous technical standard requirements that frustrate efforts to export to these countries.
- 4.12 As Table 2 indicates, non-tariff barriers take a variety of forms. They can be Government imposed regulations, such as quarantine restrictions or quotas, or they can be a function of a country's political and business environment, such as corruption or industry monopolisation.

Table 2: TCF Non-Tariff Barriers, Apical International⁴

Barrier	Examples
Quantity Control Measures (Quotas)	US fibre specific quotas handicap Australian woollen fabrics and garments by inequitable tariffs on other natural fibres Chinese quotas are first allocated to state-owned factories producing US exports which limits the use of Australian textiles in China Japanese footwear quotas favour high-value footwear and major international brands, limiting Australian opportunities
Monopolisation Measures	Vertical monopolisation and inaccessible distribution systems limit market penetration in Indonesia and other South East Asian countries
Inequitable Principles	Inequitable principles (often called corruption) within industry, particularly in Asia, limit market participation
Technical Measures	US Customs recently increased the amount of documentation on product descriptions. New rules require stitch counting on knitwear imports New North American requirements, testing for chemical emissions from carpets, cost importers both time and money

⁴ Apical International, *Market Access Industry Participation Program*, 2003, commissioned by the TFIA.

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	The EU is increasingly introducing technical standards which frustrate imports
Subsidies	The South American export subsidy, the South American Motor Industry Development Plan, had negatively impacted on the Australian industry
TCF Market Access Advocacy	Countries around the world fund TCF advocates to actively promote their interests internationally. Advocacy groups work in direct competition with Australian companies that are attempting to gain access to international markets without such well-funded assistance
Distance	Australian TCF exporters reported that distance from export markets is a major impediment to trade, as international customers insist on 120 to 180 day payment terms, commensurate with delivery and shipping lead times
Freight Costs	Exporters also noted that freight costs from Australia are typically higher than freight costs to Australia

- 4.13 While the elimination of non-tariff barriers is on the WTO agenda, it is not yet clear how the WTO proposes to deal with these hidden barriers to trade. Export market access is a key issue for Victorian TCF firms, especially given the high levels of import penetration into Australia. In some sectors imported products have now fully replaced locally manufactured products. The non-tariff barrier issue is becoming increasingly important and the Productivity Commission should undertake further investigation into this issue. Not only to investigate the real impacts of these barriers on export capability, but also to identify means by which the Commonwealth Government can begin to address them, particularly when negotiating regional and bilateral trade agreements.

Regional and Bilateral Trade Agreements

- 4.14 "Regional trade agreements" can either be informal or formal. Informal agreements are driven by market forces and are illustrated by the type of informal trade arrangements that have developed between Europe and Eastern Europe or America and China. Because Australia is such a small player in the global TCF marketplace, it has been unable to sufficiently influence trade flows and benefit from such arrangements.
- 4.15 Formal agreements, such as NAFTA and European Union, are also very powerful, albeit not always comprehensive. For example, the US, through NAFTA, allows duty free access into the US for garments produced from US components in Mexico, but subjects other garments to 18-30% tariffs. When viewed in this light, trade agreements may be considered another type of non-tariff barrier to trade, despite being WTO consistent. On the other hand, these regional agreements provide excellent market access opportunities for exporters from countries party to the agreement. Australia is currently not party to any such agreement. APEC, to which Australia is a signatory, provides an overarching set of agreed trade principles but does make specific trade liberalisation commitments.
- 4.16 In order to establish favourable trading relations with key partner countries, Australia has started bilateral trade negotiations. Bilateral agreements can be employed to achieve similar arrangements to those already mentioned between the US and Mexico. To date, the Australian Government has signed a free trade agreement with Singapore, commenced negotiations with the US and announced negotiations with Thailand, Japan and China. Through such agreements, particularly with large TCF players such as US, Thailand and China, Australia has a great opportunity to improve export market access for the TCF industry.

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- 4.17 The Victorian Government believes the Commonwealth Government should actively pursue the interests of Victoria's TCF industry through bilateral negotiations and is concerned that any future unilateral reduction in TCF tariffs by the Australian Government will unnecessarily disadvantage Australia's negotiating position. If TCF tariffs are eliminated unilaterally by Australia, and our negotiation partners are able to export freely to Australia, there will be little incentive for them to reduce their own TCF tariff and non-tariff barriers during bilateral or even future multilateral trade negotiations.

5. Confronting and Exploiting Change

- 5.1 The last decade has been a time of upheaval and change in the international TCF marketplace. Much like the TCF industries in the US, the UK and other developed nations, Australia's TCF industry has been adjusting to a marketplace that is more globalised, liberalised and technologically advanced.
- 5.2 In this section, a variety of case studies will be used to illustrate how Victorian TCF firms have managed to confront and exploit the changing global marketplace. While some firms have exited the market entirely, or been forced to restructured significantly, others have embraced change and consequently grown. Today, these companies are improving the way they do business and are working to build an internationally competitive Victorian TCF industry.

Managing Labour Market Adjustment

- 5.3 As globalisation has increased, a key issue for the Victorian TCF industry has been the cost of labour. This is particularly the case in the apparel sector, where many steps in the production process are labour intensive and cannot be automated. A number of Victorian TCF manufacturers, like their counterparts in Europe and the US, have taken advantage of trade liberalisation and globalisation to move their large-scale or long-run production to countries with low labour costs.
- 5.4 In recent years a number of high profile Victorian TCF firms have moved their manufacturing operations off shore. For example Quicksilver in Torquay, Yakka in Shepparton and Fletcher Jones in Warnambool have all closed manufacturing operations in regional Victoria in recent years. Needless to say, this trend to undertake large-scale manufacturing off shore has resulted in significant adjustment within the Victorian TCF industry.
- 5.5 While restructuring of the TCF industry is purported to carry long term benefits for the national economy, research has shown that many of the costs of reform have been hidden or at best underestimated and thus distort the equitable distribution of those benefits.
- 5.6 The nature of TCF industry reform has resulted in numerous factory closures and redundancies, and as a consequence high levels of job losses in the sector. Since the 1980s, over 30,000 TCF manufacturing jobs have been lost in Victoria alone. Many of these jobs were filled by some of the most vulnerable socio-economic groups in society, as the TCF

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workforce has typically been dominated by low skilled female workers from non-English speaking backgrounds. Furthermore, many of these people resided in regional locations where the TCF manufacturer with whom they were employed was a major part of the community.

- 5.7 Professor Michael Webber and Sally Weller⁵ have traced the post retrenchment experiences of 605 former TCF sector workers over the years 1993 to 1997. Their longitudinal study showed that only one third of the workers found a secure new job of similar or better status and conditions to their TCF job. About a third of workers were relegated to insecure, intermittent employment, and the other third did not work again after retrenchment. In addition, the study found that Commonwealth Government TCF Labour Adjustment Programs (TCFLAP), introduced as a means of retraining large numbers of displaced workers, were unsuccessful as they emphasised retraining at the expense of job placement. Furthermore, long periods spent in training courses by many workers served to distance them from the workforce rather than improve their future job prospects.
- 5.8 Webber and Weller argue that restructuring within the TCF sector has in fact resulted in serious inequalities that are often undetected by conventional econometric modelling or unemployment statistics. The clearly study illustrates that the unemployment consequences for TCF workers cannot be resolved simply through retraining programs. The Victorian Government is concerned about both the high social cost and the purely fiscal costs of this type of social displacement.
- 5.9 An important element in the Victorian Government's *Our Forests Our Future* industry transition program is a program to support disaffected workers. The reduction in sawmill licence levels, to meet the Victorian Government's new estimates of sawlog supplies, will be accompanied by a Workers Assistance Program to provide financial support and support services, such as training, for all workers adversely affected by the industry adjustment. The Victorian Government has assumed responsibility for the workforce affected by this policy, and likewise believes the Commonwealth Government has a responsibility support TCF workers affected by tariff level reductions. State Governments, with on-the-ground contacts, networks and experience are the ideal means of delivering these types of programs.
- 5.10 The Victorian Government believes that every job is important and would like to see the Commonwealth Government develop a labour market adjustment package that addresses the full social and economic costs of manufacturing job losses in a comprehensive manner. The Victorian Government believes that the Productivity Commission, as it considers the future of the TCF industry, should seriously consider the impact of job losses on individuals and the inequities that these job losses create for workers from vulnerable socio-economic backgrounds and regional areas.
- 5.11 The Victorian Government commissioned the National Institute for Economic and Industry Research (NIEIR) to undertake research on the hidden unemployment and limited labour mobility of TCF workers. The study aimed to investigate and report the impacts of decreases in TCF employment on levels of structural unemployment in Victorian Local Government Areas (LGA) with a high concentration of TCF industry or residents employed in TCF.

⁵ Michael Webber & Sally Weller, *Refashioning the Rag Trade*, UNSW Press, 2001.

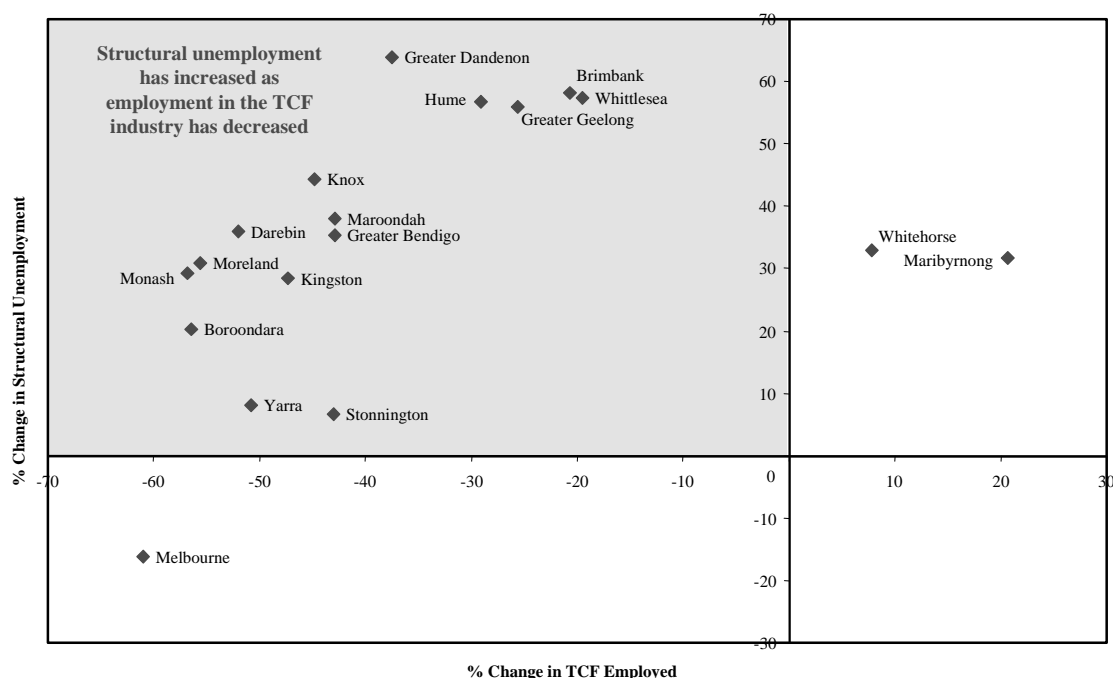
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- 5.12 The NIEIR study covers the period of 1991-2001. The study focuses on 18 LGAs with more than 800 residents employed in the TCF sector in 1991. The study uses data collected by the Australian Bureau of Statistics (ABS) census for 1991, 1996 and 2001 and Centrelink records of benefit recipients.
- 5.13 The information provides strong empirical support for the Victorian Government's primary concern regarding labour market adjustment. The NIEIR study illustrates that structural unemployment has increased significantly in areas that have suffered TCF job losses (even in areas that have experienced overall employment growth), thus creating social and economic inequities not apparent when analysing macro statistics (see graph 1 below). This conclusion is also supported by the work of Michael Webber and Sally Weller noted earlier.
- 5.14 Importantly, the NIEIR study goes beyond the ABS employment statistics to investigate the number of people who have dropped out of the labour market as a result of retrenchment. The 'hidden unemployed' are an economic and social cost that is given little consideration in conventional economic modelling.
- 5.15 This information provides empirical evidence for the Victorian Government's labour market adjustment concerns that displaced TCF workers have low levels of labour mobility and thus contribute significantly to the increasing structural unemployment rate.
- 5.16 The study highlights the importance of ensuring that any economic modelling assumptions used by the Productivity Commission duly consider the unique nature of the TCF workforce and the misnomer of the labour market clearing. It also further emphasises the necessity of effective labour market adjustment programs to assist in any restructuring.
- 5.17 Related to labour market adjustment is the increasing trend for manufacturers, particularly in the apparel sector, to utilise outworker labour in order to reduce costs in labour intensive operations. The number of TCF outworkers across Australia is unknown with the Australian Taxation Office using a figure of 50,000, the TCFUA suggesting the number to be as high as 329,000 and industry estimates proposing a figure closer to 100,000. Available evidence suggests that outworkers have low rates of pay compared with other TCF workers and less occupational health and safety protection⁶. The Victorian Government has made a commitment to assist outworkers and the *Outworkers (Improved Protection) Bill 2003* has been introduced to the Victorian Parliament.
- 5.18 The Victorian Government believes that the issues affecting outworkers, such as pay rates and working conditions, need to be addressed at a national level. As a start, the Productivity Commission should undertake national research to examine the magnitude of the outworker industry, and identify ways to improve protection of outworkers.

⁶ Parliament of Victoria (2002), Family and Community Development Committee, *Inquiry into the Conditions of Clothing Outworkers in Victoria*.

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Graph 1: TCF Employment vs Structural Unemployment (LGA's >800 TCF employed in 1999)



Exploiting New Opportunities

5.19 Victoria's TCF industry has been in transition since the 1980s. While some firms have struggled to survive, others have been adapting very successfully to the changing international marketplace. Much has been made of company closures, but the news for the Victorian TCF industry is not all negative. Firms such as the Innovative Textiles Group have entered the market while companies such as Gale Pacific, ADA, AUNDE and Emu Ridge have expanded their operations considerably in recent years. These companies have been exploiting new opportunities in domestic and international markets.

5.20 Emu Ridge is a local footwear manufacturer that has diversified in recent years, becoming more innovative, dynamic and design focussed. In 1994 Emu Ridge began manufacturing merino sheepskin (ugg) boots for the local surf community in Geelong. The company then expanded into other footwear production including clogs, boat shoes, casual sneakers, sandals and thongs. The company uses innovative design and latest footwear technology to differentiate its products at the higher value-added end of the market.

5.21 In order to capitalise on the increasingly global nature of production in the industry, Emu Ridge recently set up a joint venture manufacturing facility in China. While some shoes are processed in China, all components are sourced, inspected and cut in Australia. Emu Ridge is very aware of the importance of maintaining control over all aspects of the supply chain to ensure efficient, high quality production. The company has been successfully exporting to the USA, Japan, Canada and Europe.

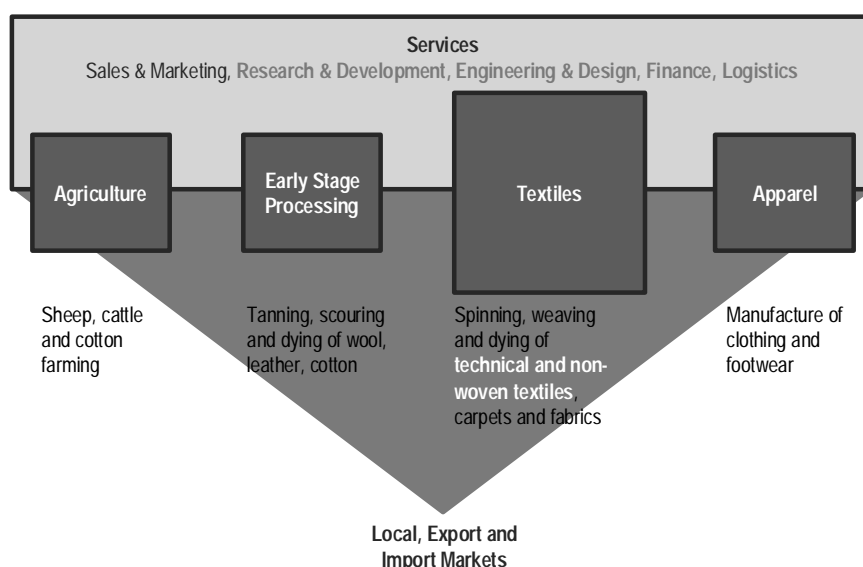
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- 5.22 AUNDE Norwellan Ltd is German owned textile manufacturer that has recently decided to expand its operations from the contract furnishings market to the automotive seat cover market. The company has announced that it will invest \$5.7 million in its Stawell plant in regional Victoria. The investment will cover the purchase of state of the art cut and sew machinery and equipment, including sewing machines, C&C cutting machines, CAD/CAM and in addition part of the investment will be ongoing employee training.
- 5.23 Stawell is a logistically an ideal location to service the automotive industries of Adelaide and Melbourne. The Stawell facility is a vertically integrated manufacturing unit with piece and package dyeing, warping, new weaving and knitting technologies, finishing and flame lamination facilities and a fully accredited NATA laboratory. It is proposed that all seat covers will be sewn at this facility.
- 5.24 AUNDE has traditionally produced contract furnishings for major Lane, Instyle and Woven Image. Whilst contract furnishings is still a thriving business sector it is not a growing market. With the expansion into the transport sector, AUNDE now has the diversity and stability of trading in two different market segments. AUNDE has secured contracts in the automotive and public transport markets with National Express' new M tram and trains, Alstoms' Hillside trains and Air International, a first tier supplier that has contracts with Ford, Mitsubishi and Holden.
- 5.25 The Victorian cases studies already discussed in section 2 of this paper and those above illustrate that:
- at the firm level, there has been heavy investment in new equipment, technologies and supply chain processes to increase productivity;
 - firms are developing technologies and new ways of doing business to ensure their competitive advantage, particularly in the technical and non-woven textiles sector;
 - while globally the TCF export market is becoming increasingly saturated due to general world wide industry over-capacity, Victorian companies are developing export niches; and
 - companies are seeking to differentiate themselves by adding value through product quality, design, branding and service.
- 5.26 The Victorian Government's TCFL Industry Audit and Plan support these findings and highlighted that the strategic direction and essential characteristics of large parts of the industry have changed in response to the global changes. The firms that are most successful in this new environment are those that have been servicing niche markets, linking into global supply chains, using a varied production mix, investing in knowledge intensive research and design, producing quality manufactures, providing tailored customer service and exporting.

6. Outlook for the TCF Sector Towards 2025

- 6.1 The pace of change in the industry brought about by progressive trade liberalisation over the past 20 years will not slow down but accelerate with new WTO commitments, regional and bilateral trade agreements and with the increased global integration of companies. In order to achieve success in this new environment, there is no doubt that Victoria's TCF manufacturers will have to continue to adjust to the effects of increased international competition and trade liberalisation.
- 6.2 Cost competitiveness will no longer be sufficient to succeed - producers will need to focus on new product development in areas of competitive advantage. Success in this new environment means embracing innovation and knowledge creation in the workplace as well as stepping up investment in R&D, new technologies, new processes and ways of doing business.
- 6.3 As the case studies in the previous section illustrated, Victorian TCF manufacturers will need to strategically position themselves for future success. TCF firms of the future will:
- supply niche rather than commodity products;
 - link in with global supply chains;
 - use a varied production mix, including local short-run production;
 - invest in knowledge intensive research and design;
 - produce high quality manufactures;
 - focus on customer service; and
 - develop export markets.

Diagram 4: Vision for Victoria's TCF Industry: Towards 2025



- 6.4 The Victorian Government's TCFL Industry Plan and the National TCF Forum Strategic Plan highlight that Victoria's TCF industry has become increasingly complex. As Diagram 4 above illustrates, in the future, Victoria's TCF industry will look markedly different from the traditional domestically integrated supply chain. Each sector will be a stand-alone industry that

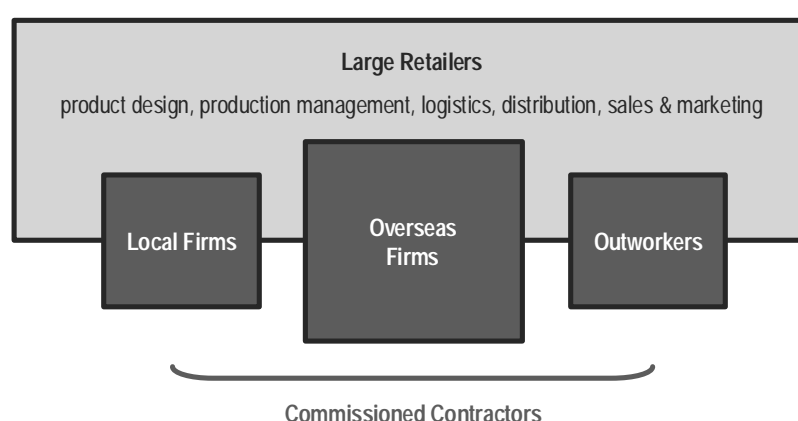
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imports, exports and services a diverse range of customers. The services sector will become increasingly important, providing R&D, engineering and design, finance and logistics services in addition to the traditional sales and marketing functions to all sectors of the industry. The textiles sector will expand to include technical and non-woven textiles manufacturing. In combination these two high value-added sectors with unlimited export potential, services and technical textiles, will drive the future success of the industry in Victoria.

Outlook for Victoria's TCF Industry Sectors

- 6.5 The **farmers** and the **early stage processors**, at the commodity end of the supply chain, will continue to build strong export markets. These sectors are becoming increasingly technologically advanced but are limited in their scope to value-add. The future competitiveness of these sectors will depend largely upon export market access, commodity prices and international supply and demand trends. A key issue for early stage processors in the wool and leather industries in the future will be how well they address increasingly onerous environmental waste management issues.
- 6.6 The **technical and non-woven textile sector** is a rapidly emerging area of the industry that offers great potential for future growth. With its strong product differentiation and high value-added capabilities, this sector will continue to establish strong niche export markets. Firms in this sector will invest heavily in innovation and R&D and will employ a highly skilled workforce.
- 6.7 **Textiles, leather and furnishings for household and commercial premises** will increasingly become internationally oriented but will maintain a strong local manufacturing base. Growth in the industry as a whole will continue to be constrained by high capital costs.

Diagram 5: Outlook for the Apparel Sector: Towards 2025



- 6.8 Large retailers will increasingly control the local **apparel industry**, which has already undergone significant change. As Diagram 5 above illustrates, services to this sector will become increasingly important. Retailers will largely determine both industry demand and the production mix. Locally companies in this industry will continue to increasingly undertake design, short-run production of high fashion items, more sophisticated marketing and branding and customer service functions on-shore, while moving large scale production to countries with

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low cost labour. As the diagram below shows overseas firms will undertake the majority of the commissioned contract garment assembly work while a mix of small local firms and outworkers will make up the local manufacturing base.

- 6.9 The TCF industry as a whole will support a new high value-added **services sector**. The sector will provide R&D, engineering and design, finance, logistic as well as sales and marketing services. A critical mass of local manufacturing will be required to support this sector which will employ a highly skilled workforce.

7. Government Support to Industry

- 7.1 In order to meet the challenges required to achieve long-term viability, as set out in the previous section, TCF firms will need industry support mechanisms from the Commonwealth Government similar to those provided by Australia's competitors. This section focuses on the type of support required to facilitate this transition.

Commonwealth Government Industry Policy

- 7.2 The Commonwealth Government controls the primary TCF related policy levers such as tariff levels, non-tariffs barriers, export assistance and dumping. The Commonwealth's strong trade focus and connections internationally also make it the primary source of government assistance to the TCF industry.
- 7.3 With tariff reductions legislated for 2005, it is appropriate that the Productivity Commission and the Commonwealth Government once again review tariff levels. The Victorian Government believes that while tariffs are important they should not be considered in isolation to the range of issues which determine the industry's competitiveness. Victorian firms have already faced significant tariff and quota adjustments and they have already started adjusting to an increasingly competitive marketplace. In this context TCF industry protection is no longer the issue it once was. There is a range of key policy issues that will impact upon the future success of the industry.
- 7.4 The Victorian Government believes that the future of the TCF industry will be largely determined by how well Commonwealth Government policies assist firms to develop the following key ingredients for success, and of course, how well firms confront these challenges. The Victorian Government considers it imperative that the Commonwealth Government develop a comprehensive industry assistance package for that assists firms to:
- ensure a critical mass of the manufacturing base remains in Australia;
 - increase export market access;
 - focus on innovation and R&D;
 - develop a highly skilled and collaborative workforce; and
 - encourage inter-firm collaboration.

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Critical Mass of Manufacturing

7.5 In order to ensure the success of the emerging high value-added TCF services sector, it is essential that a critical mass of the TCF manufacturing base remains in Australia.

7.6 Tariff levels will be an important factor in determining the future size of the TCF manufacturing base. However, given the globally competitive TCF marketplace that Victorian companies are now competing in, tariff levels are only one of a number of issues that will determine the long-term viability of manufacturing in Australia. Issues such as export market access, supply chain management and innovation will also be important. The Victorian Government strongly believes that the Productivity Commission should address the tariff level issue in this broader context, rather than determining future tariff levels in isolation to these other key issues.

7.7 The Victorian Government has commissioned research that will assist in finalising its position on tariff levels for each of the different TCF sectors and this will be articulated in the Victorian Government's contribution in June 2003. From the outset, however, the Victorian Government will oppose any future unilateral reduction in tariff levels unless progress is achieved on the key policy issues outlined in this paper.

7.8 One way the Commonwealth Government currently supports the manufacturing base is through the **TCF Expanded Overseas Assembly Provisions (EOAP)** program. Like many developed countries around the world, Australia has implemented an overseas assembly provision program to establish measures to retain high value-added activities within the home market, as firms move labour-intensive activities offshore. The program enables participants to assemble goods overseas from predominantly Australian fabric or leather. The assembled goods can then be imported for local consumption with duty payable only on the cost of overseas processing and content.

7.9 As labour intensive garment manufacturing is being increasingly undertaken in low labour cost countries, EOAP provides valuable support to Victoria's textile manufacturing base. The program, like SIP is scheduled to end on 30 June 2005. The Victorian Government believes this program has been used extensively and is beneficial to industry. It should be extended beyond 2005 as Victorian companies continue to adjust to global changes.

7.10 Dumping is another issue that seriously impacts upon the viability of the local manufacturing base. With Australia's apparel industry effectively operating a season behind the Northern Hemisphere, dumping is of major concern to the local industry. It has been asserted by many companies that dumping has increased significantly in recent years. We therefore urge the Productivity Commission to examine:

- the major dumping trends affecting Australia; and
- if reforms to existing anti-dumping legislation are needed to ensure a fair trading environment.

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Export Market Access

- 7.11 As world trade liberalisation continues TCF import penetration will increase and the marketplace will become more competitive. Accessing export markets will be key to Victoria's TCF industry success.
- 7.12 Tariff and non-tariff barriers are integral to the debate about export market access. While the level of protection afforded to Australia's TCF industry is high compared with other Australian industries, Australia's TCF industry today has no quotas, relatively low tariffs and no substantive non-tariff barriers. Research undertaken by Apical International (2003) indicates that, compared with our competitors, Australia's TCF industry is highly liberalised. The Victorian Government strongly believes that future debate regarding tariff levels in the TCF industry should be viewed in an international context.
- 7.13 As already discussed in section 4, the Victorian Government considers that the Commonwealth Government should actively pursue the interests of Victorian TCF exporters as it negotiates future bilateral and multilateral trade agreements. To this end, the Victorian Government is concerned that any future unilateral reductions in TCF tariffs by the Australian Government will unnecessarily disadvantage Australia's negotiating position. If Australian TCF tariffs are reduced unilaterally, and Australia's negotiation partners are already able to import relatively freely, Australia will have limited leverage in seeking TCF tariff and non-tariff barrier reductions in future trade negotiations.
- 7.14 Export market access can also be increased through the provision Commonwealth export assistance programs. While the Commonwealth Government provides a range of generic export assistance programs through Austrade, the highly successful **TCF Market Development Fund**, another one of the programs implemented under the Commonwealth's National Policy Framework for the TCF Industry in 2000, has already been abolished.
- 7.15 The TCF Market Development Fund provided \$12.5 million to develop and implement sector-based strategies designed to increase Australian TCF export capacity. The Victorian Government applied for funding in the first round and used the money to run 8 international trade market access and development forums. Some of the topics covered by the forums include US mail order shopping, Korean market access and Dubai's interior furnishing market.
- 7.16 On the whole funding accessed under the TCF Market Development Fund was well used. However despite the success of the fund, the Commonwealth Government abolished it in early 2002 during its program restructuring.
- 7.17 While generic Austrade export assistance programs, especially those focusing on small to medium enterprises, are useful, they do not adequately replace highly targeted, industry specific programs. The Victorian Government encourages the Commonwealth Government to revive the TCF Market Development Fund but recommends that guidelines be reviewed and made more strategic. In coming years the TCF marketplace will become more competitive, import penetration will increase and export market access will be key to Victoria's TCF industry success.

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Innovation and R&D

- 7.18 Innovation and R&D are key issues for a globally competitive TCF industry. The Commonwealth's National Policy Framework for the TCF Industry promised to deliver two programs to support TCF industry innovation and R&D.
- 7.19 The first program, a \$10 million **TCF Technology Development Fund** was established to support the development of new product and process technologies. The program, designed to develop industry-based rather than firm-based infrastructure, was abolished in 2002 and the Victorian Government is not aware of any grants to benefit Victorian industry that were made under this program.
- 7.20 The Commonwealth's **Strategic Investment Program** on the other hand has been very successfully implemented to date. Worth \$678 million, the SIP began in July 2000 and is due to end on 30 June 2005. Developed following extensive consultation with industry, the SIP aimed to assist industry adjust to international competitiveness and was designed to promote increased investment by the TCF industry in capital plant and equipment and R&D including innovative product development (type 1, 2 and 3 grants). It was also designed to provide assistance for reconfiguration of company operations (type 4 and 5 grants).
- 3.1 The SIP was reviewed recently by a task force within the Department of Industry, Tourism and Resources.⁷ Due to the narrow brief allocated to the review taskforce⁸ only minor changes were recommended and implemented. Thus many of the key shortcomings of the SIP in addressing the needs of smaller, often niche operators in the industry were not adequately addressed. The Victorian Government considers that some of the issues which need to be further examined include:
- whether product design and process improvements should be included alongside product development in the definition of innovation;
 - whether innovation should be measured at the firm or industry level;
 - whether a competitive advantage can be gained by firms using second hand equipment in addition to those upgrading facilities using new technology; and
 - whether a threshold level of investment is appropriate, as this may result in small firms, particularly in the apparel sector, not being able to access funding.
- 7.21 Consultation with industry by the Victorian Government reflects the above shortcomings. However, the Victorian Government recognises that a number of Victorian firms have very successfully accessed SIP funding and used it to increase productivity. The Victorian Government would like to see a SIP-like scheme extended beyond 2005.

Highly Skilled and Collaborative Workforce

- 7.22 As innovation and technology have advanced, the TCF industry's employment mix has altered. In 2000, to support TCF industry education and training, the Commonwealth

⁷ *Review of the Textile, Clothing and Footwear Strategic Investment Program Scheme Report*, Department of Industry, Tourism and Resources, September 2002.

⁸ The terms of reference for the review stipulated that the task force limit its investigation to policy refinements or other changes that might be warranted to the current scheme.

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Government launched a \$10 million **National Framework for Excellence in TCF Training**. The program aimed to create world class education and training infrastructure. However, in early 2002 the program was abolished following the Commonwealth Government's program restructuring.

7.23 A key problem in Victoria was that the large education service providers tried to access the funding to provide large-scale education solutions and failed because the TCF industry requires firm specific, tailored education services. A number of small programs were funded in New South Wales.

7.24 Workforce education and training will continue to be more important as new technology and new ways of business penetrate the industry. The National Framework for Excellence in TCF Training may not have been the most appropriate funding model. The Victorian Government encourages the Commonwealth Government to implement a new program that supports greater industry investment in workforce capabilities.

Inter-Firm Collaboration

7.25 As globalisation in the TCF industry has increased, developing links within industry both domestically and internationally has become a key ingredient for success.

7.26 For firms such as Gale Pacific, Charles Parsons and Melbatex, the development of international supply chains and international networks have been integral to both manufacturing and export market success. The Victorian Government believes the Commonwealth Government should implement a program to support growing TCF firms to access the knowledge and know-how necessary to develop global supply chain linkages.

7.27 Domestic networks are also very important. Firms will increasingly need to collaborate in order to undertake cost efficient R&D, workforce training and supply chain management. Furthermore as global supply chains lead to higher volume export contracts in the industry, firms that compete for domestic market share will need to cooperate to satisfy international demands. The Victorian Government encourages to the Commonwealth Government to establish a program to foster greater cooperation and collaboration within the currently disparate TCF industry.

Victorian Government Industry Policy

7.28 In November 2000 the Victorian Government released the *TCF Audit Report*, which reaffirmed that the TCF industry will continue to be a long standing and economically significant industry in Victoria despite being in the middle of a lengthy and substantial adjustment process.

7.29 Following on from the Audit, in June 2002 the Victorian Government released *Victorian Textile, Clothing, Footwear and Leather Manufacturing Industry: An Industry Plan for the Victorian Government*, a medium-term action plan for the TCF industry in the period leading up to 2005. The Plan outlines a number of initiatives that endeavour to complement, rather

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than duplicate, Commonwealth Government initiatives and provide practical outcomes for Victorian firms.

7.30 Through this process the Victorian Government identified five ways it could contribute to TCF industry growth. Victorian Government TCF programs focus on:

- adding value through innovation;
- improving the effectiveness of the workforce;
- increasing the global orientation of the industry;
- collaboration; and
- creating a positive industry image.

7.31 These elements are consistent with the five key Commonwealth Government policy issues discussed earlier: innovation and R&D, critical mass of manufacturing, export market access, skill and collaborative workforce and inter-firm collaboration. They are also consistent with the broader Victorian Government industry policy as expressed in the *Agenda for New Manufacturing* and the *Victorian Government Innovation Statement*.

Innovation

7.32 Victorian Government initiatives to drive greater innovation in the TCF sector include:

- a *Business Innovation Program* to help smaller firms learn to harness creative elements within their own organisations;
- \$1 million to establish a *Technical Textiles and Advanced Wool Products Centres of Excellence* in Geelong (with the Commonwealth Government);
- \$4 million to promote design capabilities and set up a number of *Design Centres of Excellence* which have some TCF-related capacity;

Workforce Effectiveness

7.33 Initiatives to improve workforce effectiveness include:

- a \$2.5 million annual commitment until 2006 to fund the International Fibre Centre which focuses on filling identified gaps in education and training to meet the needs of targeted sectors in the TCF industry;
- continued support to the Clothing Design and Production Vocational Education and Training program being delivered in schools; and
- a *Training and Education Program* to simulate greater investment in education and training.

Global Orientation

7.34 The challenge for the Victorian Government is to ensure that exports from this sector continue to grow and ensure suitable assistance is available to help TCF exporters in the future, particularly in the value added sectors. The Victorian Government provides assistance to the TCF industry as part of its broader focus on manufacturing. The *Agenda for New Manufacturing* (2002) committed to:

- a series of industry missions to showcase, amongst other products, new materials;
- an online *Export Communication Network* to help exporters share information and develop project-based networks;

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- new assistance programs and existing enterprise improvement programs to help smaller firms research new market possibilities and accommodate the changes to a business that exporting brings;
- expanded *Trade Fairs and Missions*;
- funding support for *Export Networks* to explore international marketing ideas;
- promotion of case studies of successful local companies that have joined international supply chains; and
- a *Finance for Growth* program to help smaller firms develop financing strategies to export.

7.35 As discussed above, the Victorian Government also accessed Commonwealth Government funding to provide a series of *Market Access and Development Forums* to share export market intelligence.

Collaboration

7.36 Historically Victoria's TCF industry has competed for local market share and as a result, Victorian firms take the view that they are competitors. In order to take full advantage of the industry's R&D, export and supply chain potential firms of the future, manufacturing firms need to work together. Victorian Government initiatives to assist greater industry collaboration include:

- a *Value Chain Management Program* to demonstrate the value of companies working together;
- a *Partners at Work Program* to improve workplace productivity, stakeholder relationships and support partnership initiatives; and
- ongoing work with TCF industry associations, groups and firms to support the development of local networks and alliances.

Industry Image

7.37 The Victorian TCF industry has been battling a negative public image in recent years. Despite a number of exciting new developments in the industry, the media has persistently characterised it as being non-competitive in the long term. Ironically, as the industry has restructured to become more internationally competitive, a series of job losses and company exits have made headline news and reinforced public perception.

7.38 The Victorian Government is working with the industry to set a vision and identify growth areas and success stories. Key initiatives include:

- a continuing series of programs to attract investment to the industry; and
- support for Melbourne Fashion Week to showcase Victoria's fashion design and development talents.

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