



**Feltex Australia Pty Ltd**

**SUBMISSION TO  
THE PRODUCTIVITY COMMISSION**

**March 2003**

## **EXECUTIVE SUMMARY**

Feltex Australia Pty Ltd (FA) is one of only two full breadth carpet manufacturers in Australia. During most of the 1990's it was a fully owned subsidiary of Shaw Industries Inc (USA domiciled, and worlds' largest carpet manufacturer).

During this period, Shaw Industries Inc initiated the most significant structural change in the history of the Australian carpet industry. Shaw injected significant capital into the industry and introduced technological and operational changes not previously seen in the Australian carpet industry. Shaw recruited many graduates from local universities and seconded experienced personnel from the USA to implement change. These changes, which include total supply chain management are ongoing.

As a result the Company has changed its focus from being manufacturing driven to that of a full on consumer driven entity. FA continues to commit considerable investment in resources, systems and personnel development to deliver this outcome.

FA is a large producer of wool carpet yarn and wool carpets, however about 80% of its production volume is producing carpets from manmade fibre (MMF).

FA believes that MMF sector of the carpet industry will face the greatest threat from the tariff reduction scheduled for 2005, and would be further adversely impacted by any additional tariff reduction after 2005. FA believes that carpet import volumes are sensitive to tariff change.

FA has the view that any increase in competition from imports of MMF carpets post 2005 will threaten the underlying economic viability of the Company, and could result in downsizing, plant closure, job losses and a decline in investor confidence for key stakeholders.

FA employees are sourced from a wide variety of different ethnic backgrounds, are largely unskilled or semi skilled, many are women, many have poor English language skills, and all jobs are located in the comparatively higher unemployment western suburbs of Melbourne. FA contends that these employees would find alternative employment difficult to access.

FA believes that much needs to be done by employers and labour force elements (including unions) to embrace more flexible work practices in the pursuit of an internationally competitive position.

## **INDUSTRY SUBMISSION**

FA fully supports the submission to the Productivity Commission by the Carpet Institute of Australia Limited (CIAL).

## **FA SUBMISSION**

FA lodges its own submission to the Productivity Commission to highlight the issues which it believes have particular relevance to the future of Feltex Australia as a key player in the Australian carpet industry.

1. Feltex Australia Pty Ltd (FA) is a wholly owned subsidiary of Feltex Carpets Limited (FC). FA is the Australian operating division of FC, and accounts for all of the Australian activities of the group.

FA has emerged from a very substantial rationalization program through the decade of the 1990's.

This rationalisation saw the amalgamation of three large manufacturers (Pacific/Redbook Carpets, Minster Carpets and Invicta Carpets), the subsequent elimination of duplicated resources, and created a business of size and flexibility that was able to cope with the significant reduction in tariff rates for carpets that took place during this period.

During this period the combined businesses under the ownership of Shaw Industries Inc (USA) invested in excess of \$30 million in upgrading equipment (all prior to SIP), introduced many innovations into the Australian operations that had been proven in the USA plants of Shaw Inc (the worlds leading carpet manufacturer) and which have been developed through local initiatives, and pursued a rationalisation which led to the closure of two sites, and a reduction in employment of over 450 whilst growing productivity and output at the same time. This had a significant impact on propelling FA towards its goals of being world competitive.

2. FA operations in its present form embrace the following:-

Site Address	Activities Undertaken	Employees
35-65 Paramount Road Tottenham Vic 3012	<ul style="list-style-type: none"> <li>• Nylon yarn processing</li> <li>• Tufting</li> <li>• Continuous dyeing</li> <li>• Backcoating</li> <li>• Head office/Administration/Sales &amp; Marketing</li> </ul>	312
South Road Braybrook Vic 3019	<ul style="list-style-type: none"> <li>• Wool fibre dyeing and blending</li> <li>• Woollen yarn spinning</li> <li>• Tufting</li> <li>• Continuous dyeing</li> <li>• Backcoating</li> <li>• Sales and Marketing</li> </ul>	372
Somerville Road (Cnr Victoria Ave) Brooklyn Vic 3012	<ul style="list-style-type: none"> <li>• National Distribution Centre</li> <li>• Sample Manufacturing</li> </ul>	41
Hallam Road Hallam Vic 3803	<ul style="list-style-type: none"> <li>• Extrusion of polypropylene carpet yarns</li> </ul>	17
Outside Victoria	<ul style="list-style-type: none"> <li>• Sales and Marketing</li> </ul>	45
<b>Total Employees in Australia</b>		<b>787</b>

**Key Point:** FA manufacturing operations and the major employment centres are primarily located in the western suburbs of metropolitan Melbourne.

3. (Removed due to commercial sensitivity)

- 4.
- The Tariff on carpet imports into Australia is currently 15%.
  - The current plan is for the tariff to reduce to 10% from 1 January 2005.
  - There is a correlation between the import tariff on carpets and the level of carpet imports entering Australia (Refer Appendix 1).
  - Over the 12 year period from 1991 the import tariff has progressively reduced from 35% to the current 15%. During that time the level of imports has been increased by almost double in both volume and market share terms.
  - Total market size has fluctuated during that 12 year period but the real long term growth has been static.
  - Exchange rates have also fluctuated and may have some impact, but over the past 2 years when the A\$/US\$ rates has been at historic lows, import volumes have not declined, and have maintained the increased share of total market that has occurred over the last 12 years.

**Key Point:** Carpet import volumes are sensitive to movements in import tariff levels. Import volumes are less sensitive to exchange rate fluctuations.

- 5.
- Imports of carpet from New Zealand have been entering Australia duty free since the mid 1980's. All carpets imported from New Zealand are wool, or wool rich.
  - The Australian carpet market has a significant wool component as part of its market share (estimated at around 40-45% by volume).
  - FA view is that there will be no material change to the volumes of wool carpet imports entering Australia when tariff rates reduce in 2005.
  - FA view is that the competition from imports for Australian carpet manufacturers if/when tariff rates reduce will occur primarily in the MMF sector, from North America and Europe initially, with a growing threat from Asian producers.

**Key Point:** FA operations in Australia have a significant bias towards the MMF sector of the market, which FA predicts will be the main target for increased import competition.

6. Under the scenario identified in paragraph 5, there will likely be a some adverse impact on FA Australian business when tariffs reduce from 2005. If further tariff reductions occur this adverse impact will likely be more significant. The flow on effects will include:-
- Reduced demand for MMF products manufactured by FA in Australia.
  - Under utilisation of capital intensive assets resulting in higher unit costs – further eroding FA competitive position.

- The need to downsize employment, or to possibly shut down complete segments of the operations.
- The erosion of FA revenue stream and profitability to the detriment of financial stakeholders; eg shareholders, bankers, suppliers and customers.
- Another possible scenario is further rationalisation in the industry impacting the remaining two major MMF producers.

**Key Point:** Increased competition from imports will lead to the forced downsizing of FA operations, with the likely impact being under utilised assets, higher costs, reduced employment, financial pressures for key stakeholders, or further rationalisation of the remaining MMF producers.

## 7. NATURE OF MARKET

During the decade of the 1990's:-

- The Australian carpet industry has undergone the most significant restructuring in its entire history.
- There are now only two entities that represent full breadth manufacturers, remaining in the Australian carpet industry, and these two collectively account for over 70% of market share.
- This situation has evolved as the industry world wide has rationalised to fewer major entities as a result of the increasingly capital intensive nature of the industry. This has placed pressure on local Australian manufacturers to have a scale of operation that supports the investment necessary to become internationally competitive.
- In recent years the Strategic Investment Program (SIP) has provided a level of support to the carpet industry to further assist key players in its pursuit of internationally competitiveness as tariffs reduce.
- The remaining years of the SIP will be critical in building on what has happened so far.
- FA believes that a scheme similar to the current SIP will be necessary post 2005 to enable the Australian carpet industry to survive and grow in an environment where tariffs are reduced to 10%, **and even more so if tariffs are reduced below this level.**

**Key Point:** The Australian carpet industry has seen massive restructuring during the 1990's. There is really only one major play left. A Government incentive scheme similar to the SIP is critical if the industry is to develop into a truly world competitive one in the light of lowering tariffs and the unique market dynamics that exist in Australia.

The incentive scheme must embrace the potential for a major entity to emerge that has size and financial security to compete with the world if tariffs go lower still.

## 8. AUSTRALIAN CARPET MARKET

- The Australian carpet market has been very cyclical over the years. It has consistently followed the building cycle through its high and lows. In this environment there needs to be some certainty in the future that gives investors confidence to continue to provide the necessary capital funds needed.

The SIP program through to 2005, and a similar arrangement post 2005 will provide this comfort.

- The carpet market in Australia is unique in comparison to all other carpet markets in the world.
- It is a mature market within a developed economy, with a relatively low total volume when compared to major markets in USA and EEC, but with a high level of consumer choice demanded and expected.
- It is unique in that this level of consumer expectation is spread fairly equally across both wool products and products manufactured from MMF. Nowhere else in the world does this scenario exist.
- To service this diverse consumer demand requires mainstream Australian manufacturers to spread resources more broadly than similar entities elsewhere in the world.
- Any reduction to tariff rates will open further the opportunities for overseas suppliers to selectively target market niches to the disadvantage of Australian producers which are expected by consumers to provide a wide choice.

**Key Point:** The Australian carpet market is very cyclical and relatively small by world standards; consumer expectation is similar to that in other developed economies (eg USA, EEC), but is spread across both wool and MMF products. This is a demand pattern unique to Australia.

The risk is that a reduction in tariff will enable overseas manufacturers to selectively target various market niches, which will quite possibly result in Australian producers exiting the market with the ultimate result being a lesser choice to Australian consumers.

## 9. LABOUR PROFILE

- Around 800 Australians are directly employed by FA, and this represents approximately 25% of the total direct employment in the Australian carpet industry.
- The employee mix is approximately 60% males/40% females. Many employees have low level of English language skills.
- There are an estimated 34 different nationalities represented in the labour force, and FA translates key communications into 16 separate languages.
- The manufacturing workforce represents 80% of the total FA employees, and 90% of this group is in the semi skilled/unskilled category.

- Most of these employees have acquired the skills they have from on the job training with FA. The average length of service is over 10 years per employee, and labour turnover is relatively low, at less than 3%. These employees are not a mobile workforce.
- FA manufacturing operations are located in the western suburbs of Melbourne which has relatively higher unemployment when compared to other metropolitan Melbourne areas.
- FA believes that any reduction of employment levels, which would occur if import competition increases, would impact a workforce of which many would find alternative employment very difficult to access – especially the lower skilled, non English speaking, and female sectors of the labour force.

**Key Point:** FA provides employment for a large number of workers with relatively low skills, and with language difficulties. In the western suburbs of Melbourne this workforce does not have easy access to alternative employment options.

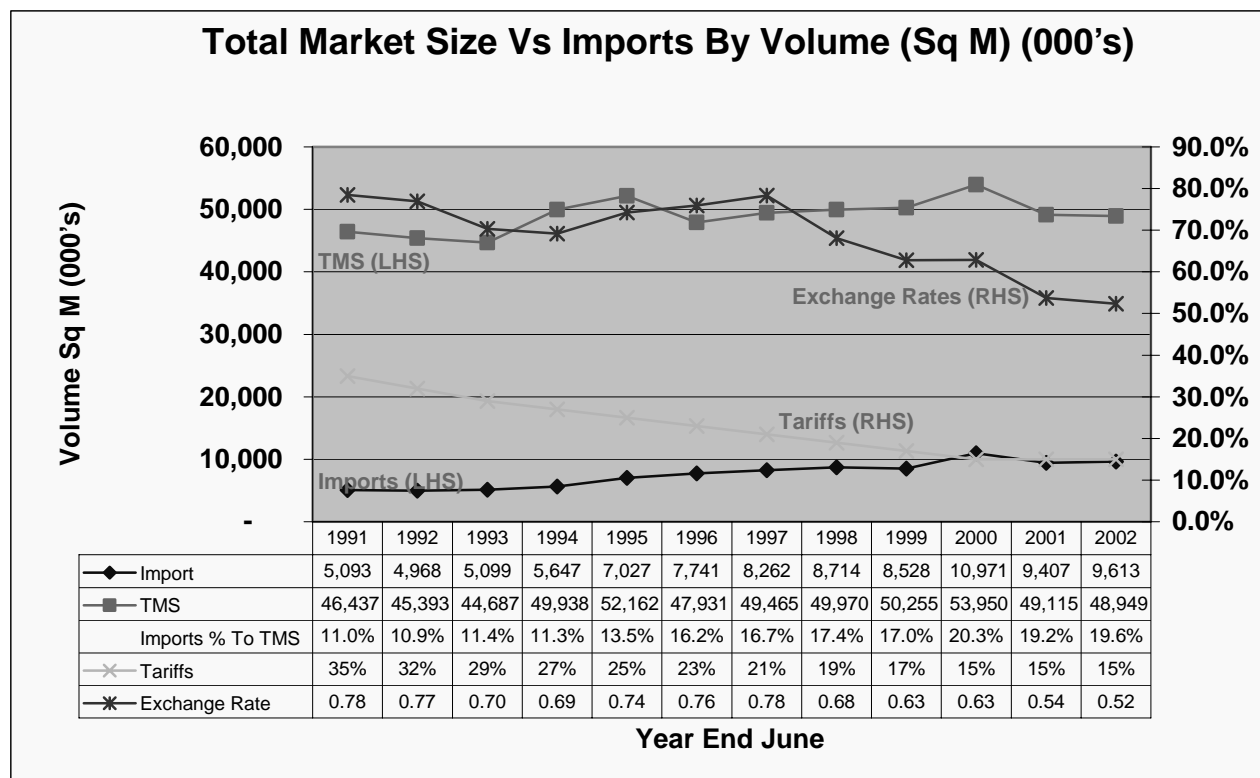
## 10. LABOUR RELATIONS

- FA believes that a multi skilled, flexible and mobile work force is fundamental to the prosperity of the carpet industry as tariff levels fall in 2005.
- The labour force is substantially unionised in the industry, and therefore unions have a pivotal role to play in leading their members down the path of flexible work practices.
- In the case of FA, its workers have experienced a growth in 'real' wages of 13% over the past 5 years (Refer Appendix 2).
- EBA outcomes have delivered 28% in aggregate wage increases compared to a 15.1% aggregate increase in CPI from 1997 to 2002.
- Despite this significant improvement in real incomes, the labour force, and its union leadership, are still very negative to accepting that changes are necessary. Labour mobility between departments is difficult to deliver, mobility between sites is even more difficult. There is a mindset that prevails within much of the workforce that focuses on a redundancy payout ahead of job retention, and this has been supported by the TCFUA.
- This is costly to FA as it:-
  - Adds costs by not enabling the utilisation of labour resources where they are most needed at any given time.
  - It creates ill will between FA and its employees.
  - Creates the potential for loss of skills in the business, as it is more often long serving employees seeking redundancies.
- FA experienced a costly industrial dispute in 2001 which closed its operations for 6 – 8 weeks. FA believes that an adverse industrial relations environment will negatively impact investment decisions by key stakeholders. FA believes that strong legislative measures are needed to provide a stable business environment.

**Key Point:** Employers and the various components of the labour force (employees and unions) must understand that in a low tariff environment the workforce must be prepared to accept change. The opportunity to prosper behind a tariff barrier is gone and there will be no industry, and hence no jobs, unless all players accept the need for change and move to an internationally competitive position. Stronger industrial relations legislative measures are needed to provide a more stable business environment.



## FELTEX AUSTRALIA PTY LTD



Source: Carpet Institute of Australia

