

8 May 2003

Dr David Robertson
Commissioner
TCF Industry Review
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Dr Robertson,

SUPPLEMENTARY SUBMISSION TO TCF INQUIRY

Further to Rocklea Spinning Mills' initial submission to the Commission's Review of TCF Assistance, I would like to add the following comments in response to the Position Paper released by the Productivity Commission in April.

From the Rocklea Spinning Mills perspective, we welcome the insights the Commission has made about the industry. We agree that there are many parts of the industry that will unfortunately disappear, regardless of future policy arrangements. But we also agree that there are many strong components within the broader TCF sector with companies that are internationally competitive and that have the potential for a strong future.

Rocklea is one such company, with a proven track record in export markets and against import competition within the domestic market. However, there is no question that continual adjustment pressure will confront us over the period to 2010 and beyond.

We have no doubt that we will continue to face significant barriers for our yarn into other markets. Most countries have higher cotton yarn tariffs than Australia, with for example Korea at 8%, Canada at 9%, the US at 9.7%, China, Indonesia and Malaysia all at 10%, Mexico at 18% and India at 20%. Only the EU has a lower tariff (marginally) at 4.6%. There is no indication to suggest that this will change any time soon.

In addition, many countries (but most notably the US, India and China) heavily subsidise their cotton processing (including spinning) industry. This makes it increasingly difficult to compete on the world market.

But at the same time our domestic market is shrinking. As tariffs come down further for both clothing and textiles, it is inevitable that the pressure on our business will increase, despite our proven international competitiveness.

It is for this reason that we welcome, and fully support, your recommendation that continued budgetary assistance is required in the period after 2005 to help facilitate the industry's transition to a low tariff environment. Indeed, Rocklea's firm view is that the budgetary assistance should flow through until 2015, as the industry will be continuing to confront adjustment pressure throughout this period (especially clothing with further tariff reductions, which will then have obvious flow on effects to the intermediate textiles suppliers).

We do question though whether this should continue to be SIP type assistance. The pressure on and key drivers for the industry will be to be flexible, closely attuned to the customer, responsive, high value added and globally focussed. This will mean further rationalisation and restructuring within the industry, and strong supply chain linkages to incrementally strengthen the value offering. Consequently the assistance provided should help facilitate this.

As Rocklea highlighted in its initial submission, we were instrumental in initiating further restructuring of the Australian cotton spinning industry through the purchase of Bonds Spinning Mills. This was cited in discussions with then Minister, the Hon John Moore MP, as an example of desirable industry rationalisation that should be encouraged through the Strategic Investment Program. Yet due to restrictive and bureaucratic interpretation of the scheme guidelines, rather than adherence to the initial policy intent, the assistance to help facilitate this change was not delivered.

Any future arrangements should allow enough flexibility, at the Minister's discretion, to ensure any industry restructuring initiatives (whether within company groups or across an industry sector), which lead to net economic benefits for the country, are supported.

The extent of budgetary assistance provided should also have regard to the extent of local value added in the end product. The former TCF Import Credit Scheme comprised a series of determinations which ensured a high return the greater the level of Australian produced content. This actively encouraged downstream producers to seek out Australian fabrics and yarns. The utilisation of Australian produced raw materials and intermediate products should be a key determinant in the level of support provided to any TCF company in the future. This will ensure stronger linkages and improved supply chain management within the industry.

I trust these comments are of some help to you in finalising your deliberations on this review.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'D Gordon', followed by a period.

David Gordon
General Manager