BRUCK TEXTILES

PRODUCTIVITY COMMISSION INQUIRY

POST 2005 TCF INDUSTRIES ASSISTANCE

PRESENTATION TO PUBLIC HEARINGS – JUNE 2003

INTRODUCTION

Bruck Textiles is Australia's leading manufacturer of woven cotton and man made fibre fabrics for apparel, furnishing and industrial end use. The company has been established in Australia for more than 50 years, with annual turnover of over $120 million.

Bruck's business structure has changed dramatically over the life of the company due to a wide range of factors. This structure will continue to change as Bruck continues to reposition itself to ensure it has a strong and viable future.

Of course, Government policy decisions will have a significant impact on the nature of our operating environment in the future, and clearly this current industry review is very important to Bruck.

BRUCK'S FUTURE DIRECTIONS

Before outlining our views on the Commission's recommendations in its April TCF Position Paper, it is worth recapping on Bruck's philosophy moving forwards and on the role Government policy plays in this.

Bruck is conscious that the cost of weaving in Australia is currently at $10.30 per square metre, whereas in Pakistan, our key competitor it is 30 cents (according to data derived by Werner International).

It is for this reason, and the fickle nature of the target market, that Bruck has moved out of producing locally, fabric for fashion apparel. For example, the lightweight ladies' wear fabric we supply is now imported.

However, over the last 3 years we have focussed increasingly on fabric finishing applications and moved into printing, thereby adding value to the base fabric. This helps to provide a better service for the local customer, facilitating their quick response requirements.

More importantly though, Bruck's key focus now is on more fully servicing the Defence Department and its needs. As a consequence, Bruck now supplies 90% of the fabric demanded in Australia for combat clothing.

Bruck is also clearly committed to the future and plans to consolidate in Wangaratta. We will be expanding the Wilson warehouse in Wangaratta with the furniture market as the key focus.

Thus, Bruck is doing everything to make itself a "world's best" manufacturer. It must do this to effectively position itself in export markets (which is vital given the constraints of a small, and contracting, domestic market).

We believe there are real opportunities for Bruck to expand its penetration into world markets – in areas that could essentially be regarded as bulk niche markets (ie good volume markets from our perspective, but niche markets on the global scale). These markets demand greater quality and technical proficiency than available out of the lower cost countries for small run orders. The opportunities available, include:

- Fire retardant fabrics to Asia
- Coated linings to Asia
- Furnishing fabric into Europe

However, to be a sustainable exporter, Bruck needs to reduce its cost base to a point where it will no longer require assistance. SIP has helped Bruck in this endeavour to date, and continued SIP type assistance will help ensure we achieve the desired goal. Bruck is striving to ensure its long term stability in a number of ways, including through:

- Substantial re-investment in new state of the art plant and equipment, in regional Australia
- Plant and processing improvements, designed to enhance production efficiency in the most environmentally friendly manner possible.

IMPLICATION'S OF THE PC POSITION PAPER

Bruck welcomes the positive contribution that the Productivity Commission has made with the current inquiry into future TCF assistance. We agree that a package of support arrangements should be accorded to the industry, carefully balancing tariff reform with positive assistance to facilitate further industry restructuring.

However, we believe the recommended tariff reductions are too severe and the offsetting positive assistance does not go far enough. In this context, Bruck recommends that the Government should adopt the action outlined below.

Tariffs

Bruck maintains the position outlined in our initial Submission, which was to hold all TCF tariffs at 2005 levels until 2010. We note the Commission agrees with this position and we welcome the Commission's recognition that such action is vital to ensure the industry has sufficient time to adjust to the impact of the scheduled 2005 tariff reduction.

However, the adjustment pressure is induced by developments within the international trading arena as much as it is by domestic policy, and tariff reform beyond 2010 must be managed with equal care. As such, we believe the tariff reductions through to 2015 must be more gradual, and Bruck recommends that the schedule of tariff cuts should be no more severe than the following:

- Clothing tariffs to be reduced to 14% in 2010 and then to 10% in 2015 (not the 10% and 5%, respectively recommended by the Commission)

- Fabric tariffs to be phased down from 10% in 2010 to 5% in 2015, with 1% point annual reductions over this period (not the immediate 50% cut to 5% in 2015 recommended by the Commission)

Positive Assistance

Bruck agrees with the Productivity Commission that further Budgetary Assistance is warranted beyond 2005, to ease the adjustment pressures on the industry arising from the scheduled tariff reductions and to facilitate desirable industry restructuring. The question is, what level of funding support is required as tariffs come down?

We believe the funding should be provided for the full 10 years (not 8 as suggested by the Commission). Further, the funding should be maintained at current annual levels for the full 10-year period (not cut by 50% for the second half of the period, as the Commission has suggested).

Of the 3 options presented by the Commission, Bruck favours the retention of SIP type assistance with further modifications. However, we are not opposed to the concept of a competitive scheme (ie picking winners), provided the right criteria for selection are applied. In the lighter context, the desired attributes that could be used as criteria for selection include demonstrable uptake of new technologies, skills development, capital investment, productivity improvements, product development, new market growth, etc (but in truth, these are the sort of attributes that can, and are, encouraged by the SIP scheme).

The suggestion of a bounty system based on incremental improvements to value added is not supported at all by Bruck. We believe it would create too much confusion over the uncertainty about what is meant by value added and the manner in which increments are determined.

However, under a modified SIP scheme, Bruck does recommend the following changes:

- Allowing eligibility for second hand equipment
- Allowing market research and market development expenses undertaken by firms to be eligible under the Type 2 funding component
- Enhancing the restructuring/rationalisation component of the scheme so that it provides real incentive for industry consolidation, including consolidation within company groups and not just between two or more entities
- Removing the 5% cap on value added (but of course retaining the overall 5% cap on turnover).

SIP has worked very well for Bruck and has enabled us to undertake the necessary investments and developments to date. The investments encouraged by SIP have ensured that the business has improved its cost structure. For example, we were producing at $18/kg, but SIP supported improvements have enabled our overall manufacturing cost structure to come down to $15/kg.

However, world standards suggest that Bruck needs to strive to get its costs of production down to $12/kg, on balance across all product types, to be fully international competitive. We will get there through continued skills development/training, adoption of latest IT applications/computerisation, capital investment in latest technologies, etc.

However, it will take some 5 – 7 years to achieve these targeted world standards. The continuation of SIP type schemes is therefore essential to help facilitate such developments. But once there, we are confident that Australian production will be fully sustainable without the need for further government assistance.

This is particularly pertinent for the major volume based textile mills. These of necessity will be regionally based as the cost/value of land in metropolitan areas acts against the development of/ investment in major mills in the main cities. If the objective for the long-term is the development of a sustainable, self-reliant textiles industry, then there are strong grounds for gearing support towards regional Australia.

Turning to other specific issues raised in the Commission's TCF Position Paper, Bruck has no problem with the Government's interpretation of innovation, and we do not see any reason for a change to the definition of that concept.

We also do not believe it would be appropriate to provide funding to organise company exits.

However, funding should be utilised to help the industry consolidate and strengthen. The existing arrangements under Type 4 and 5 of SIP are insufficient to encourage the necessary degree of rationalisation and consolidation. Funding should be provided for restructuring (whether within individual entities or between firms within an industry sector) to the necessary extent needed, provided it can be demonstrated that there is a net economic benefit to be derived overall. Further job losses are inevitable, but the restructuring planned will secure the remaining jobs.

Trade Arrangements

Bruck is also disappointed that the Productivity Commission does not appear to regard trade arrangements as falling within the purview of this Inquiry. We note that recommendations were received from the Fiji TCF Industry and Government on strengthening future trade arrangements between Australia and Fiji. However, the Commission did not make a recommendation one way or the other about the Fiji requests.

But Fiji is a major market for Bruck and we believe there are still considerable opportunities for Australian business if a strong strategic approach is taken to future development of our collective TCF industries. The current SPARTECA-TCF Scheme designed to help retain Australia Fiji trade levels close to those prevailing in the 1990's, has cleared failed.

Urgent action is needed to ensure modifications are introduced to SPARTECA and/or the SPARTECA-TCF scheme, to ensure the stated objectives of the latter scheme are achieved. The most effective way to do this would be to allow a cash redemption of the content points generated under the S-TCF, as it would ensure an immediate value is assigned to what is otherwise a very complicated mechanism for the industry.

Bruck is also concerned about the Australian Government's recent decision to allow imports from the Lesser Developed Countries (LDC's) duty free access to the Australian market from 1 July 2003. While we recognise this decision will not be overturned, it is the rules of origin that are applied to such products that need to be carefully considered and closely monitored.

We understand that the intended rules of origin for products imported from LDC's will be:

- 50% local content and last process of manufacturing (as per the CER and SPARTECA arrangements)

- But, the local content can comprise up to 25% content from other LDC's <u>and/or</u> DC's

This would mean that a garment imported from any LDC could have up to 25% content from countries such as China, Taiwan, Korea, India, Pakistan, etc. The most likely prospect would be apparel sourced from Cambodia or Laos utilising Chinese fabric, or garments from Bangladesh taking advantage of Indian or Pakistani fabric.

This is a major concern for Bruck as it eliminates any incentive for Australian textiles to be incorporated in LDC garment manufacture. This promised a major opportunity for Bruck as the duty free access to the Australian market allowed EOAP type prospects to be pursued in LDC's with no significant textile base (which essentially is the case with all LDC's).

CONCLUSION

As we highlighted in our initial submission, the future for Bruck is no longer inextricably linked solely to clothing. The company is no longer providing any fabric to retail oriented clothing manufacture. Bruck's strength is in maintaining an efficient highly capable manufacturing site focussed on servicing an increasing range of end uses. While there is still a focus on apparel fabrics, this is principally for offshore make up in low cost sources (ie Fiji and potentially LDC's), and we are increasingly moving to industrial fabrics and defence-oriented fabrics, and other non-clothing related applications.

The company has reinvented itself and it clearly has strong future prospects. But the decisions the Government makes as a consequence of this current review into TCF assistance will have a major bearing on the company's future development. To ensure we do develop a strong and sustainable TCF industry in Australia, Bruck recommends the following course of action:

- Clothing and fabric tariffs held constant at 17½ % and 10% respectively until 2010

- If tariff reform is being reciprocated, implement:

  - stepped down clothing tariff reductions to 14% in 2010 and 10% in 2015

  - annual percentage point reductions in fabric tariffs after 2010, to reach 5% by 2015

- Extend SIP type budgetary assistance for the10 years to 2015, at current annual funding levels for the full period

- But introduce the following modifications to the SIP type arrangements:

  - Allowing eligibility for 2nd hand equipment

  - Allowing eligibility for market research and market development expenditure

  - Enhancing the restructuring/rationalisation component of the scheme so that it provides real incentive for industry consolidation

- Modifying the Australia Fiji S-TCF Scheme to allow redemption of ELAC points

- Amending LDC Rules of Origin to prevent DC content to be used to enable duty free access of the Australian market.