PRODUCTIVITY COMMISSION INQUIRY

INTO

AUSTRALIA'S TCFL INDUSTRIES POST 2005 ASSISTANCE

Supplementary Submission By

TCF Council of Fiji and Fiji Ministry of Commerce, Business Development and Investment

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INTRODUCTION

This submission is a joint submission by the TCF Council of Fiji and the Fiji Ministry of Commerce, Business Development and Investment, in response to the Position Paper released by the Australian Productivity Commission in April, on its Review of TCF Assistance.

As previously stated, the Australian market is extremely important to the Fiji industry and given the nature of Australia Fiji trade relations, any change in Australia's future assistance arrangements for TCF will have a significant bearing on the future prospects for Fiji's TCF sector. Equally, Fiji provides both a competent source for cost efficient garment make-up for the Australian industry and a strong demand for Australian fabrics, trims and leather. Fiji provides an opportunity to enhance the future sustainability of Australia's TCFL industries, through a deliberate and forward looking relationship between supply chain partners within our collective industries.

Fiji provides a substantial and strategic adjunct to Australia's textiles, clothing, footwear and leather (TCFL) industries. It provides a base of low cost, flexible, short run clothing and footwear manufacture. It also provides a significant market for Australian produced textiles (fabrics and trims) and leather.

TERMS OF REFERENCE FOR THE INQUIRY

The Fiji Government and industry note that while the Productivity Commission has acknowledged the initial joint submission to the Inquiry, the Commission believes the issues raised in that submission are "beyond the scope of the Inquiry" (page 103 of Position Paper).

However, this conclusion seems in direct contravention of the Terms of Reference which ask the Productivity Commission to consider, amongst other matters, international trading arrangements and to "report on the likely impact on the TCF industries of international trade developments".

While the latter reference would undoubtedly expect focus on the Doha Round of WTO Multilateral Trade Negotiations and proposed Free trade Agreements, it specifically states that the analysis should "not (be) limited to" developments in these areas.

SPARTECA and the S-TCF Scheme has been an integral element of the Australian TCF industries trading arrangements over the last decade. Moreover, careful management and modifications to these arrangements can foster strong relationships between the Australian and Fiji industries and enhance further trade development to mutual benefit.

The recommendations presented in the initial Fiji submission were designed to help achieve this outcome, and as such fall directly within the scope of the Inquiry. With this in mind, we make the following comments and further recommendations in light of the Commission's Position Paper.

REACTION TO POSITION PAPER RECOMMENDATIONS

Tariffs

Fiji welcomes and supports the Commission's recommendation to hold TCF tariffs constant until 2010. However, we do not believe that any tariff reductions should be implanted after 2010 unless there is first clear reciprocation worldwide for such trade reform. That is, Australia's approach to trade liberalisation should be conditional upon similar action by all other countries trading in TCF products.

Further, whatever reductions in tariffs are made after 2010, they should be implemented in a manner which enables a manageable transition for the industries. We agree that clothing tariffs should be stepped down, but the mid rate of 10% and end rate of 5% by 2015 is too severe in one hit. We believe that the duty step down for garments should be to 12.5% in 2010 and 7.5% in 2015 (subject of course, to similar tariff reform globally).

Similarly, the fabric duty should not be cut immediately in 2010, but it should be phased down to 5% by 2015 (with 1% point reductions in each year from 2011 until 2015).

Budgetary Assistance

Fiji notes and welcomes the Commission's support for ongoing budgetary assistance for Australia's TCF sector beyond 2005. While the Commission has suggested 3 various options for such support, it would appear that its preference is for SIP type assistance to be retained for this purpose.

It is not appropriate for Fiji to comment on how this assistance could best be delivered to the Australian industry, or what modifications may be warranted. Except of course, to reiterate that Fiji is, and can be, of strategic importance to the ongoing development of the Australian TCF sector. As such, any investment by Australian businesses in Fiji TCF activities should also be eligible for support under any future SIP type scheme if it can be demonstrated that such investment has direct net benefit to Australia.

As stated in Fiji's previous submission, if Fiji industry is recognised as a viable, strategic partner for Australian industry, then it should be possible to extend SIP funding to investment in Fiji. This could be accommodated, either by allowing Australian companies' expenditure in Fiji to be eligible for SIP, and/or providing aid money to Fiji government to provide similar level/type of support for Fiji industry. This would be in Australian industry's interest as Fiji provides a source of low cost labour and pull through demand for Australian fabrics, trims and leathers.

MODIFICATIONS TO AUSTRALIA FIJI TRADE ARRANGEMENTS

Regardless of the final decision on Australia's future TCF assistance arrangements, the Australian Government will still need to determine the most appropriate ongoing trade arrangements between Australia and Fiji to facilitate the strategic development of the two countries' collective industries.

At the moment, these arrangements comprise SPARTECA and the S-TCF Scheme. Both of which were explained in detail in our initial submission, but in essence:

- SPARTECA allows product made up in Fiji to be entered into Australia duty free provided that it has a minimum of 50% local content on a factory cost basis

- The SPARTECA-TCF Scheme allows ELAC points to be generated where local content is 70% and greater, and these points can be offset (at a ratio of 2:1) against product with a minimum content of 35% to notionally bring it up to 50% and thus eligible for duty free entry into Australia.

Since the S-TCF Scheme was introduced, Fiji understands that some

  - 8 million ELAC points have been generated and registered

  - 1.6 million ELAC points have been terminated (ie expired after 18 months)

  - 0.6 million ELAC points have been redeemed against MLAC

  - 6 million ELAC points are still held by registered manufacturers and available for use

It is clearly evident from these figures that the scheme is not being used to any great extent. This is even more apparent when it is recognised that, based on conservative industry estimates, the level of ELAC points registered is probably only around half of what has been actually generated; it is just that not all have points have been officially registered as there is insufficient capability to make use of the points

Yet the potential for the scheme to generate significant TCF activity and trade is high, with some simple but fundamental modifications to the existing arrangements.

The most effective way to generate the desired outcomes from the Scheme would be to retain its fundamental elements, but allow for redemption of ELAC points where they are not utilised against MLAC. That is, allow for a value to be assigned (and paid) against the ELAC points that can then be utilised against the purchase of Australian input materials. This would act to promote both Fiji and Australian industry

The value to be assigned can, and should, be at a discounted rate so that the preferred usage of the points remains their original purpose – ie to offset against products with an MLAC of 35%. For redemption, the ELAC points should be allocated a value of say, 75 cents per point (ie discounted by 25%).

However, to encourage further development of the Fiji industry, an "uplift" factor could be applied to this rate on the basis of efficiency improvements by the subject company. For example, if a company can demonstrate productivity improvements, skills development, increased capital investment, etc, then the value assigned to the ELAC points should be increased to a maximum of say 90 cents per point.

The redemption of points could be accorded in one of two ways:

1. The Fiji manufacturer could redeem the ELAC points generated, with the Fiji Ministry of Customs, for cash

    - The Australian Government would need to fund this (say through an allocation of targeted Aid funding). On the basis of current activity, it is expected that the average annual funding allocation required would be around $12 - $14 million.

    - To ensure that the funding generated is used by individual firms to assist with their purchases of Australian material inputs, the redemption would be limited to the extent that the company can demonstrate that it has manufactured TCF products with a minimum content of 70% (and these products cannot themselves be used to generate ELAC points – to avoid double dipping)

2. The Fiji manufacturer could redeem the ELAC points generated for cash certificates, which could then be used as part payment for purchases of Australian materials

    - The Australian exporter would then be able to use these certificates with Australian Customs, to offset against duty imposts on imported materials (or alternatively, they could cash them in with the Australian Government). This would avoid the need for funding to be made available to the Fiji Government, and ensures that there is a benefit for Australian industry

If these modifications to the S-TCF scheme were introduced, it would help to

- improve the free flow of trade and investment within the region

- encourage further product promotion and international market access of product utilising the collective skills and knowledge of the Australian/Fiji interests

- foster increased investment in the industries, and

- promote training and skills development within the industry in Fiji

We note that the Commission may feel that consideration of these arrangements falls outside the scope of the Review's Terms of Reference. But SPARTECA and the S-TCF scheme form an integral part of Australia's trade agreements and developments within these will have a distinct bearing on future opportunities for the Australian TCF industry.

Given that this Inquiry is to determine appropriate TCF assistance arrangements for the post 2005 period, the Fiji Government and industry is strongly advocating that a decision be made to modify the S-TCF scheme as outlined above and apply this for the same time duration as the overall post 2005 TCF package.

CONCLUSION

In summary, the Fiji TCF industry and Fiji Government recommend the following industry and trade policy measures should be introduced by the Australian Government to help foster the further development of the Australian TCF industry (and consequently the industry in and trade with Fiji):

- Freeze Australian apparel and textile and footwear tariffs at 17½ % and 10% respectively from 2005 on
    - Refrain from any further reductions until other trading partners introduce similar trade reform
    - If further reductions are matched globally, then reduce clothing tariffs to 12.5% in 2010 and then again to 7.5% in 2015, and phase fabric tariffs from 10% in 2010 to 5% by 2015
- Maintain the SIP Scheme and extend eligibility to include Australian investment in Fiji productive capacity (where net benefit to Australian industry can be demonstrated)
- Modify the existing SPARTECA-TCF Scheme to allow ELAC points generated to be redeemable, and retain this modified scheme for the duration of the new post 2005 TCF package.

To reiterate Fiji's previous submission, the implementation of more meaningful trade and industry policy measures as outlined above, clearly targeted at building the strategic relationship between Australian and Fiji TCF, will provide:

- A bilateral benefit to the TCF industries of both countries
- The most effective means of support to the Fijian TCF industries, which will continue to enjoy more cost effective inputs as well as the flexibility of short lead times
- A means for continued investment and export by Australian textile companies and security for their employees and Fijian garment manufacturers and their workforce
- A sound base for the joint Australia Fiji textiles and clothing industry to consolidate their operations and build for the future
- An opportunity to support these industries without contravening World Trade Organisation obligations, as Fiji is an emerging economy and can rightly adopt measures to help accelerate this process.