

# **Carpet Institute of Australia**

## *Review of Post 2005 TCF Assistance*

### *Presentation to Productivity Commission*

### *Hearings – June 2003*

## **The Carpet Institute of Australia**

The CIAL is a national industry association, representing the collective interests of the Australian carpet industry

- The Institute has 45 members, which account for 95% of Australian output
- Members include:
  - Carpet manufacturers
  - Manufacturers of intermediate product (ie yarn, latex, etc)
  - Manufacturers of associated product such as underlay
- Associate Members include:
  - Suppliers of goods and services to the broader carpet industry
- Membership covers the full supply chain
  - From yarn spinning/extrusion through manufacturing and distribution to retail and cleaning

## **Economic Significance of the Industry**

- \$750 million annual manufacturing turnover
- At retail point of sale, equates to over \$1.5 billion
- \$75 million exports, and growing – 10% of turnover
- Import replacement - carpet and yarn
- 3,300 direct employees
- Extensive value chain –from wool fibre and polymer, through spinning/extrusion to tufting & weaving
- Regional economic significance
- Largest processor of raw wool in Australia

## **Carpet Industry has Responded Positively**

- The industry has continued to undertake fundamental structural change
- Industry consolidation continues with increased focus on vertical integration
- More than \$150m invested since 1997 in yarn spinning and extrusion facilities and latest technology
  - SIP has provided a significant impetus for the industry
- Employment up 14%
- Significant productivity gains
  - sales revenue per employee up by 20%
- Import share of the Australian market has almost doubled to 20% of the market
- Export share of total output has more than doubled (to 9%)
  - annual export sales have increased by 32% (to \$75m)

## **But Many Challenges still to be Confronted**

- Small domestic market
- Scale/scope disadvantages with overseas competitors
- Erosion of domestic base / loss of critical mass
- Relatively high cost structures
  - Increasing import competition and dumping
- Restricted access to overseas markets
  - Due to high trade barriers
- Emergence of China as a carpet manufacturer

- Significant investment occurring in carpet facilities throughout Asia, and China in particular

### **Key Drivers for the Industry in the Future**

- Development of new, and expansion of existing, export markets
- Uptake of latest technology, to ensure
  - Continuing productivity and efficiency improvements
  - World's best practice manufacturing
  - Cost containment
- Integration into global supply chains
  - For both efficient sourcing of materials and effective penetration of new markets
- Highly skilled and capable workforce
- Effective research and development
  - New product designs, process improvements, environmental management, etc

### **CIAL Initial Recommendations**

#### **Tariffs**

- To be held at 2005 levels until 2010
- Any further reductions to be conditional upon an industry review and reciprocal trade liberalisation globally

#### **SIP**

- Extend for 10 years at current annual funding levels
- Changes to further enhance the program's effectiveness
  - Increasing type 1 payments to 30% of eligible expenditure
  - Amending the value added calculation
  - Including eligibility for offshore demand driven activities, such as warehousing and distribution of Australian TCF exports.

### **Carpet Tariff Anomaly**

Carpet tariffs are at the same rate as other textile intermediate products (ie fabrics) ie 15% coming down to 10% on 1/1/05

- Yet, other textile consumer products (bed linen, towels) are now at 25%, coming down to 17½% on 1/1/05
- Stems from 1991 Industry Statement decision which accelerated tariff reductions for the industry
  - Carpet was inadvertently linked in with intermediate products
- Anomaly needs to be remedied:
  - Not asking for carpet tariff to be increased
  - But, further reductions in carpet tariffs (after 2005) should be deferred until other finished consumer textile products come down to carpet level

### **Market Access Considerations**

The PC suggests that trade liberalisation by other countries is irrelevant to Australia's action on tariffs

But this is not true

- As Australia's market opens and import share escalates, it is vital Australian exports grow

commensurately to maintain volume throughput

- If Australia's access to other countries is hindered, we will lose critical mass and relative competitiveness as our local market share erodes
- At the moment, our target markets (especially in Asia) have much higher trade barriers than we have

## **Positive Assistance - Delivery**

PC suggested 3 alternatives to budgetary assistance

- SIP with modifications
- Bounty based on incremental value added
- Competitive Entry

CIAL agrees with PC that further budgetary assistance is warranted to assist with the adjustment process

Favour continuation of SIP

- Well known and understood and least disruptive approach
- Value added option creates definitional problems and generates uncertainty
- Competitive entry is workable, but tantamount to picking winners
  - Means more targeted assistance, although carpet industry certainly has proven credentials to meet criteria for strong growth potential

## **Positive Assistance – Funding**

CIAL is firmly of the view that budgetary assistance should be implemented for a further 10 years at current annual levels

- Note and agree with PC position that “it is best to err on the side of caution”
- Budgetary assistance is needed in the 2005 – 2015 environment to help firms position for the future
- Any further tariff cuts after 2010 will undoubtedly place significant import pressure on the domestic market
  - Consequent market disruption will mean further restructuring by the industry
  - The magnitude of the adjustment task ahead should not be underestimated
- Imperative that adequate funds are allocated to cover both adjustment assistance and industry development programs

## **Positive Assistance – Other Issues**

### **Redefining Innovation**

- Ausindustry's definition of innovation (for SIP) is well understood and is now working well
  - As reflected in the reduced number of appeals in the 2<sup>nd</sup> program year
  - There is no reason to extend the definition

### **Reducing the expenditure threshold**

- The \$200,000 threshold is not unreasonable

### **Including early stage processing**

- Budgetary assistance is being provided to help ease the adjustment process for industry as tariffs are further reduced
- We see no reason for providing such assistance where the pressure being confronted has not been induced by changes in government policy
  - No reason to allocate the funding out of SIP, as the needs are different

## **Conclusion**

CIAL recommends a further 10 year program to facilitate the necessary restructuring of the carpet industry, with

- Carpet tariff held at 10% until 2010, and no further unilateral tariff cuts
- Continuation of a SIP type program until 2015 at current annual funding levels with modifications ie
  - Increase type 1 payments to 30% of eligible expenditure
  - Increase the value added cap to 10%
  - Include eligibility for offshore demand driven activities such as warehousing and distribution of Australian TCF exports
- Government actively supporting improved market access
- Consideration be given to introducing alternative assistance measures for specific regions where TCF is a major employer
- Appropriate changes to payroll tax and workers' compensation arrangements