

**AUSTRALIAN WOOL
PROCESSORS COUNCIL INC**



SUBMISSION

TO

PUBLIC HEARINGS OF THE

PRODUCTIVITY COMMISSION INQUIRY

INTO

**POST 2005 TCFL INDUSTRIES
ASSISTANCE**

June 2003

Australian Wool Processors Council (AWPC) represents the interests of Australian Early Stage Wool Processing (ESP) and three members of the later stage wool processing (LSP) industry.

The ESP industry is involved in the scouring, carbonising and manufacture of tops from Australian greasy wool. ESP products are sold to the LSP who are primarily yarn spinners. ESP in Australia is an export oriented industry that also services the domestic LSP market. The Australian ESP industry processed wool with a value in excess of \$1 billion in 2001/02. It will achieve a similar value in 2002/03 in spite of conditions which have led to a contraction in the industry.

KEY POINTS OF AWPC MARCH SUBMISSION

1. Despite the modernity and export orientation, the ESP industry in Australia is in an extremely difficult competitive position at this time due to:
 - (a) The failure of key markets to reduce their protective barriers to the same levels that prevail in Australia. These barriers take the form of direct tariffs and certain discriminatory tariffs and in the case of Europe specific subsidies to allow ESP capacity to be set up in the lower labour cost countries such as Eastern Europe.
 - (b) The emergence of a significant wool processing industry in China that has an ESP capacity to service. The Chinese purchase the majority of their wool in greasy form and currently purchase 42% of the Australian wool clip. The Chinese industry is protected by tariffs and Vats and soft loans. This contrasts with the Australian ESP industry which has never had tariff assistance.
 - (c) A global overcapacity of ESP that has in turn created an overcapacity in Australia.
 - (d) A decline in the production of Australian wool. Australian ESP can only process Australian wool (due to quarantine restrictions on imported fibre) and the decline in greasy wool production coupled with the increased Chinese propensity to purchase Australian wool in the greasy form, has exacerbated the excess capacity for ESP in the Australian industry.
2. The Australian ESP industry through its peak body (Australian Wool Processors Council) has put in place strategies for the industry to work through in order to meet the competitive challenges it faces. These strategies are focused upon:
 - (a) Modernising the industry through R&D and new product development.
 - (b) Developing a specialist niche industry.
 - (c) Supply chain partnering.
 - (d) Seeking liberalisation of trade barriers in overseas markets.
 - (e) Capitalising on the inter relationships within the industry.
 - (f) Increasing the production of wool in Australia.
 - (g) Facilitating restructuring.
3. The LSP industry in Australia is an integral part of the total wool supply chain in Australia. There is an interdependence between ESP and LSP apart from the supplier/customer relationship. LSP allows the ESP manufacturers an ongoing assessment of product quality/performance and allows for the introduction (and trialling) of innovative product developments.
4. The Australian ESP industry has been excluded from any positive assistance under the current TCFL assistance arrangements and is now struggling to compete against overseas markets due to their slow rate of trade liberalisation. Consequently, Australian production has declined over the last two years, imposing substantial restructuring pressures on the industry. The industry now needs a level of positive assistance to enable it to consolidate and reposition itself, in order to be able to forge a sound presence on world markets once other countries finally liberalise their market for ESP products, to the same extent prevailing in Australia.

5. The ESP industry needs to reinvest and restructure going forward. The optimal development of the industry can best be engendered by the acceleration of the reduction of tariff barriers in our key ESP export markets. In summary, given the complexity and slowness inherent in trade negotiations, the Australian wool processing industry believes the following action should be taken by the Government to support this sector of industry:
- (a) The holding of domestic tariffs for LSP products constant at 2005 levels (for at least five years).
 - (b) The extension of the SIP scheme for the latter stage processing industry, beyond 2005.
 - (c) The introduction of a special early stage wool processing industry development program. The special industry development program would be geared towards the specific needs of the early stage wool processors given the unique market conditions now confronting the industry. Funding grants of up to 7.5% of a company's added value triggered by agreed expenditure or performance targets should be made available to ensure the long term future of the Australian ESP industry.

PRODUCTIVITY COMMISSION POSITION PAPER

AWPC notes that the Commissioners have made reference in their Position Paper as follows:

- * Support for the legislated reductions in tariff levels post 2005 and the need for these changes to be accompanied by support programs which assist in industry transformation. This includes a successor to the current Strategic Investment Program.

Reference is also made to the need for policy certainty.

- * The possible inclusion of early stage processors in such a program (Option A - Modification of Existing Arrangements).

It also noted that the Position Paper includes two other options (Option B, - A Bounty Based on Additional Value Added; and Option C - Firms Compete for Assistance

AWPC appreciates this recognition, which was overlooked when the current program was put in place.

THE FUTURE

Why Include the ESP Industry in TCF Support Programs

The ESP is recognised as a part of the TCF industry. It is a capital intensive manufacturing industry, no different to other downstream TCF industries. There is little doubt that the as the world's largest wool producing nation Australia will continue to have a significant ESP. It:

- * is a value adding industry;
- * is a source of raw material for the local and international LSP industries; and
- * provides significant employment in regional and rural Australia.

While it operates at world's best practice from a productivity, quality and environmental point of view, it is experiencing a number of issues, outlined on page 1, which are being addressed within the industry. Resolution of these issues such as unfair market access barriers do not need outside financial support. Some actions taken in other countries, such as tightening environmental requirements, will also assist the competitiveness of the Australian industry. Other resolution issues such as the need:

- * for continued investment in R&D and innovation to maintain a commercially sustainable and leadership position in the current and future global industry;
- * development of new products; and for
- * the associated restructuring of companies and their labour force.

Will be enhanced by access to properly structured support.

The ESP industry recognises that it differs from its downstream colleagues in that it does not receive tariff support and does not need access to a SIP like programme to facilitate adjustment to a reduction in

tariffs. However, access to the successor to SIP will be a key factor in the industry's ability to maintain the necessary program of R&D, innovation and product development mentioned above.

AWPC believes that this could be most managed by access to funding grants of up to 7.5% of a company's added value triggered by agreed expenditure or performance targets should be made available to ensure the long term future of the Australian ESP industry.

Later Stage Processors

AWPC is pleased to see that the Position Paper refers to the ongoing needs of TCF industries currently subject to tariff assistance. AWPC maintains the need for this sector of the industry to receive support and the need for change to be sensitively and appropriately managed.

AWPC also notes that other organisations such as TFIA and the Victorian Government have undertaken modelling exercises involving the proposals in the Position Paper. AWPC does not have the resources to engage in such work, but does note that the State Government models indicate either little or negative benefit to the nation or the industry. As we recall at the industry briefing held at the TFIA after the release of the Position Paper, it was stated that the Commission had not done any modelling at that stage. Has any been done since then?

Given this information, AWPC restates its March recommendation that domestic tariffs for LSP products remain at 2005 levels for at least five years.