

**SUBMISSION
TO THE
PUBLIC HEARING
ON THE
PRODUCTIVITY COMMISSION INQUIRY
INTO
POST-2005 ASSISTANCE ARRANGEMENTS
FOR THE
TEXTILE, CLOTHING, FOOTWEAR AND LEATHER INDUSTRY**

5 June 2003

1. INTRODUCTION

Chairman and Members

On behalf of its members and the community of the Geelong region, The Geelong Chamber of Commerce is pleased to have the opportunity to make this submission to the Productivity Commission's public hearing on Post-2005 Assistance Arrangements for the Textile, Clothing, Footwear and Leather (TCF) Industry.

The Chamber commends the Productivity Commission on its Position Paper because of its full and frank statements but, more particularly, in the Chamber's estimation, the Paper really puts forward a solid and cogent argument to not cut TCF tariffs any further!

2. THE POSITION PAPER - PREAMBLE

DON'T STITCH UP GEELONG AGAIN!

You might be concerned at this sub-heading - it carries over from the Geelong region's campaign against tariff cuts in 1996 - but I can assure the Productivity Commission that the Geelong Chamber is very concerned that the track that the Commission's preferred Tariffs option in its Position Paper is going down will do just that!

It will stitch up Geelong again!

Just as the earlier report of the Productivity Commission in the 1990's put forward that the impact of job losses in the Geelong region would not be great were grossly wrong - whereas the Geelong region lost 1150 jobs as a direct result - the Chamber firmly believes that the effects from any further tariff cuts, let alone those proposed by the Productivity Commission in its Position Paper post-2005, will be equally, or more, disastrous for the Geelong region!

It may well put Geelong's TCF Industry totally out of business!

The *Geelong Advertiser* strongly suggests that the TCF Industry in Geelong is "hanging by a thread".

The Geelong Chamber strongly believes that the thread will be very weak indeed if the Productivity Commission's preferred option of tariff reductions is accepted by the Federal Parliament and is put into practice.

The Geelong Chamber of Commerce is happily celebrating its 150th Birthday tomorrow. But we are disturbed that the prospects for the TCF Industry in Geelong and Australia will not see it celebrating a birthday anything like that in years to come!

More tariff cuts for the TCF Industry, including those already legislated for and to start in 2005, in the Geelong region will be the "last straw"!

The Chamber firmly believes that they will mean the end of most of the TCF Industry in Geelong and Australia as we know it!

We all recognise that Australian TCF industries employing Australian workers on about \$20-26 per hour can hardly compete with overseas workers who are paid about \$1 per hour! Our labour rates just cannot compare - we all know that!

And the economic argument in favour of no tariffs, or tariffs reduced to 5 per cent, produce very scant savings or benefits to the Australian economy. The Position Paper (p.201) states that ".....the conclusion that the economy-wide impacts are very small (*\$nett \$14.3 million Australia-wide*) nevertheless holds."

Does this mean that the ultimate savings equate to just 75 cents per Australian each year?

But Geelong and Australia will lose thousands of TCF jobs in the process which "knocks a big hole" in supporting or accepting the argument of saving \$14.3 million annually!

And as the Productivity Commission has already recognised, the Barwon (Geelong) region will be the worst affected region in Australia as a result of its preferred position on further tariff cuts. (*Fig E 4 p.207*)

If it was up to figures "winning the day", the Federal government could keep the tariffs where they are and pocket a nett \$800 million each year, after funding SIP, into consolidated revenue from the

importers (and not to subsidise every TCF job at the rate of \$13,000 each year as claimed) and see Geelong's, and Australia's, TCF jobs stay relatively safe!

3. IMPACTS OF ASSISTANCE OPTIONS

The position paper quotes that "reducing TCF tariffs lowers the price of imported TCF products..." (p.202)

The Chamber agrees with this statement!

But the Chamber strongly suggests that the reduction in imported goods prices does not translate to lower sale prices to the customer!

The Chamber has a fairly good "fix" on pricing structures through its members and, in most of the clothing areas, for example, prices are artificially put at "what the market will bear" and it can see how the market is dominated by brands and apparel labels!

They bear no relationship to the actual imported cost other than to have consistently big mark-ups!

The Chamber is aware that the "rip-off" of consumers being made by Australian importers and retailers in the TCF trade is huge!

Some of the prices quoted by importers to Chamber members in the retail business, which allow huge increases in the final sales price, in the Chamber' view, are obscene!

The Chamber is told that retailers in the clothing market, for example, used to accept a mark-up of 150 per cent. Now, it can be any figure! For example, a shirt landed from overseas at \$2 does not sell for \$6. It sells for more like \$25 or even higher! A shirt costing \$12 will sell for around \$70!

A Chamber member can buy good-quality pleated dress-shirts from importers for \$10 each with a selling price of \$79.95! The retailer is criticised by the importers, who supply the retailer, for selling them "on special" at \$49.95!

The Productivity Commission observed how the GST was absorbed in prices since July 2000. It is fairly easy to see, from the importer's and retailer's point of view, how the GST can easily be absorbed in a number of lines! But these huge mark-ups also explain why retailers go off-shore to buy their products! And the selling prices have not changed through the process!

The Chamber is simply making the point that the supply and sales chain is solidly entrenched!

The Chamber argues strongly that the end-prices will not change when further tariffs cuts are made or reduced to 5 per cent!

While retailers would like to buy locally-made products, the imported prices are virtually impossible to resist.

With importers being able to bring in imported products into Australia at ludicrously low prices now and see them sell them for really high prices, the Chamber asks "where is the argument to reduce tariffs?"

Where is the real justification for this being sought by the Productivity Commission?

In the Chamber's view, it certainly will not translate to "lower prices to the customer"!

A Chamber member has given the Chamber a schedule of prices available to that member at the "top end" of the market to a small retailer. The price mark-ups are, to the Chamber's mind, unacceptable.

With this argument, the Chamber is really talking about the bulk of retailers - the big department store chains, clothing market chains and major discount operators - and not the very small importers and retailers, like the Chamber member mentioned, who make up a small fraction of the market.

4. BARRIERS TO TRADE

The Chamber has great difficulty in putting its argument into a nice package of figures! Because, as we all know, the argument is really not about figures in the end (*that has already been demonstrated*) - it is about how the rest of the world is viewing Australia in terms of barriers to free trade!

The Chamber argued in its original submission that while "The Federal government puts the case that Australia is bound by international arrangements with the Asian Pacific Economic Co-operation (APEC) and the World Trade Organisation (WTO) to reduce its import tariff levels.....this does not translate to the same action by its trading partners! Both Japan and the USA have not put their equivalent regimes into place or have even approached the tariff reductions already carried out by Australia".

"Plus, these countries have their own other effective barriers to restrict trading operations from Australian exporters. Both China and India, which have been identified as potential markets by Australian textile exporters, still have high tariffs on a range of products which include woollen garments, woollen yarns, non-wovens and carpets".

The Chamber mentioned that the argument also put forward by the Federal government is that Australia must reduce its import tariffs to be truly competitive and be "open" to outside markets. It uses

the hackneyed term that Australia must adopt a "level playing field", where imports and exports are concerned, which will allow unrestricted access to all markets world-wide.

But the Chamber reported that "it knows that, from discussion with members, this is definitely not the case. There are other barriers or obstacles that are put up by other countries that effectively block this 'free access' ".

"These include quotas, voluntary export restrictions, excessive and costly labelling requirements, minimum domestic content requirements, etc. Also, many countries have seized these as opportunities to replace import tariffs as liberalisation of global trade has become more recognised and accepted."

We are told by carpet manufacturers that the existing tariffs are already impacting on their local market share and, if this continues, they could be forced to shut down.

This all leads the Chamber to its argument in its submission that "to be fair to all involved, Australia should not 'lead the march' world-wide to reduce its import tariffs".

The Chamber still believes and strongly makes the point again "that Australia should not allow any further tariff reductions unless there is open, transparent and unconditional agreement and a guarantee that its trading partners will definitely do likewise".

5. SIGNIFICANCE OF GEELONG'S TCF INDUSTRY

As mentioned in the Chamber's original submission, the Geelong region's TCF Industry has been recognised as a leading TCF centre with more than sixty businesses operating in this sector.

The largest of these is Godfrey Hirst which employs 700 staff and is also the third largest manufacturer in the region. The top nine TCF industries in Geelong employ some 66 per cent of the total TCF staff in the region.

Since the reduced tariff regime was introduced in the 1990s, Geelong's TCF industries lost some 1150 jobs. Despite this major loss of employment, the local industry still employs over 2,150 people directly (*ABS: Census 2001*), and, has an estimated \$440 million turnover, and accounts for 14.2% of Geelong's total manufacturing workforce. When this TCF workforce is extrapolated, a further 5,100 jobs are estimated to be involved and interdependent in related industries,

This compares more than favourably with both the Victorian and Australian percentages of 8.9 and 7.0 respectively and demonstrates the reliance that the Geelong region places on the TCF sector.

Further, the Geelong region has been fortunate to see sustained growth over the past five years or so. Its level of unemployment has reportedly reduced from almost 13 per cent in 1997 to 6.3 per cent in June, last year (*ABS: Barwon Western Region - January 2003*).

Though this is challenged somewhat in a further statement about regional unemployment under the next section - Section 6.

The Chamber is, therefore, extremely concerned at the likely impact on the TCF and regional industry base if any further tariff cuts are introduced.

6. PLACEMENT OF TCF EMPLOYEES

The Chamber mentioned in its submission that the Geelong region has seen, first hand, the problems for many TCF workers who were retrenched as a consequence of the 1990s' downturn as a direct result of the tariff drops.

Many TCF workers found that their skills were not readily transferable to other industries - local or elsewhere.

The Chamber was directly involved in the Office of Labour Market Adjustment (OLMA) program which gave local funding to provide training opportunities and new business opportunities which, together, would help overcome losses in local employment as a result of tariff reductions or changes to government support programs. The Chamber witnessed, first-hand, the low tangible results achieved under the OLMA program.

Research carried out in 1999 by the University of Melbourne found that, of 600 retrenched TCF workers, over half of them were still seeking employment two years later! The Geelong region has had similar research done that supports this finding.

TCF industries are also big employers of people from non-english speaking backgrounds, particularly females. These have great difficulty is finding new employment when retrenched and, if married or with a partner who also works, they are not eligible for unemployment benefits and they often give up seeking work or are not even statistically captured.

This leads to unemployment numbers that hide the actual situation.

In the *State of the Regions* report by the National Institute of Economic and Industry Research (NIEIR) in December 2001, the Geelong (Barwon) region's unemployment was assessed at 12.7 per cent which

is very close to the official unemployment figure for the region in 1997! However, the present official unemployment figure is quoted at only 6.3 per cent!

NIEIR's research suggests that the official unemployment figure can be corrupted due to:

- shifts of long-term unemployed into other types of social security benefits, and
- relaxation of the income test for social security benefits which encourages part-time work resulting in those not being counted in the regular ABS Labour Force Survey.

If this is the case, and some observers, including the Chamber, suggest in Geelong that the supposed growth in employment has not actually materialised into known jobs, then the Geelong region's employment situation is not as good as claimed.

NIEIR also estimated that the Geelong (Barwon) region's income includes twenty per cent generated from Social Security benefits and that the region is ranked at position 41 out of 60 regions in terms of social security dependence!

The Chamber believes that this situation is a further demonstration of regional impact which argues against reduction in TCF import tariffs.

7. CHANGES MADE

The Chamber submitted that, during the past eight years, the TCF industry in Australia has made changes to make itself more globally competitive which has led to a broadening of its markets from national to international. It has actively pursued the export market with the gratifying result of an increase in value of TCF exports of some 112 per cent in ten years. The Geelong-based TCF industries also share in this increased development.

Unfortunately the Chamber believes that this improvement will be placed in jeopardy and further gains lost if import tariffs are reduced and the SIP program is not continued for a long term.

The Chamber believes that, if import tariffs are reduced below their present levels and the current assistance measures are not continued fully, Geelong's TCF workforce will be subject to further drastic cuts bringing with them negative effects that will be felt throughout the region's economy.

8. CRITICAL MASS

When the Federal Government announced this TCF review, it said that each policy option put forward by the Productivity Commission would be assessed to determine its impact on regional Australia.

The TCF sector in the Geelong region contributes almost \$70 million in wages and salaries annually to its economy.

The concentration of more than sixty companies with 2150 employees, which account for 14.2 per cent of all staff in manufacturing operations in the Geelong region, has been a recipe for the region's success in the TCF sector despite the drastic reductions following the 1990s' review.

Much of this workforce which contributes this expenditure will be lost if tariff levels are further reduced because the critical mass of TCF companies required to make the sector viable will also reduce. Eventually it will become non-existent.

Geelong region's TCF companies have told the Chamber that they really question the ability of the local TCF sector to continue to supply raw materials, skilled labour, training programs and technical support at their present levels if tariffs are reduced.

This could result in annihilation of the Geelong region's TCF industry!

The Chamber believes that the aim of the Government's industry policy will be to facilitate the development of industry-driven clusters in regional areas like Geelong where competitive advantages in the manufacturing sector already exist.

The recent NIEIR report found that Geelong needed to integrate the region's research bodies into its industrial structure to maintain its success. Geelong has important research institutions that are dedicated to finding innovative ways of adding value to TCF products with more than 250 staff employed in research, education and training roles. These are in addition to those employed directly and indirectly in the TCF industries previously mentioned.

The Geelong region's TCF industry has a strong relationship with these local education and research institutions viz. Gordon Institute of TAFE, Deakin University, CSIRO - TFT Division, and the International Fibre Centre. These institutions provide the local industry with state-of-the-art research capabilities supported by appropriate staff training programs. They assist in promoting opportunities to form alliances and partnerships to facilitate value-adding capabilities to increase development and become more globally competitive.

The Geelong Textiles Network strongly promotes this association.

The end-result will see the cluster of TCF industries in the Geelong region benefiting more from this strong relationship and the Chamber believes that this is precisely what the Productivity Commission wants to see occurring with TCF industries in general.

The Chamber believes that this type of opportunity will be less likely to occur if the critical mass of TCF companies in Geelong is lost due to a reduction in tariff levels or industry assistance measures and that the Productivity Commission recognises this added-value to a reasonable extent.

9. INDUSTRY ASSISTANCE MEASURES

The Chamber is pleased to note that the Productivity Commission recommends that the Strategic Investment Program (SIP) be extended beyond 2005.

The program has been in operation less than three years but it has already demonstrated that those TCF industries that can access it have received tangible and valuable assistance.

Whichever of the alternatives put forward are implemented, the program needs to be more innovative and flexible in terms of "rewards" while maintaining transparency and responsibility.

However, the Chamber is disappointed that the Commission's recommendation goes only for eight years and stops short of the ten years' support.

The Chamber believes that the TCF industry requires at least the fulfilment of the ten-years program while it continues to undergo its metamorphosis.

The Chamber is pleased that the Productivity Commission recognises the value of the Expanded Overseas Assembly Provision (EOAP) scheme and is making no recommendation on its change.

10. IN CONCLUSION

The Chamber still strongly believes and argues that:

- The levels of import tariffs in the Textile, Clothing, Footwear and Leather industry should stay as they are i.e. no further tariff cuts should be introduced including those legislated to occur in 2005.
- If any tariff cuts are still contemplated by the government, this should not occur until at least 2010 and any further reduction after this time be subject to a review process in five years hence i.e. no earlier than 2008;
- The Strategic Investment Program (SIP) scheme be continued in a form acceptable to the TCF Industry and for a longer period i.e. at least ten years;

In apprising itself to prepare this submission to this hearing, the Chamber has again had extensive consultation with local TCF companies, the Geelong Manufacturing Council (GMC), the Geelong

Textile Network (GTN), the City of Greater Geelong, retail members and other interested organisations and parties.

11. THE GEELONG CHAMBER

The Geelong Chamber of Commerce has, as its primary roles, the fostering and advancement of business and commercial activity and being an effective and independent voice of business in the Geelong region.

As the Commission would have gathered, the Chamber has operated since its establishment in 1853 and represents all business and industry sectors and is the peak business organisation in the Geelong Region.

It is non-political and is totally independent and, with 800 members drawn from a wide diversity of large, medium and small business enterprises and organisations operating in the Geelong region, is the largest independent Chamber of Commerce in Australia.

The Chamber strongly urges the Productivity Commission to heed the comments made in this submission and to report to the Federal government that any further cuts in import tariffs in the TCF sector are unsustainable.

And, please, don't stitch up Geelong again!

Submitted for and on behalf of The Geelong Chamber of Commerce by resolution of its Council.

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