

Response to the Position Paper

Productivity Commission Inquiry

into the

Post 2005 Assistance Arrangements
for the TCF Sector.

Geelong Manufacturing Council

Geelong Textile Network

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Executive Summary

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1. Summary

Thank you for the opportunity to put our response to your recent Position Paper. We acknowledge your Position Paper is generally a thoroughly researched document that contains good information.

We congratulate the Productivity Commission for agreeing to conduct a Geelong hearing and see it as due recognition of Geelong's unique position as a centre of excellence in textiles.

We would like to acknowledge that the Productivity Commission has certainly dispelled the myth of TCFL being a 'sunset industry'. Indeed the Commission has acknowledged examples of internationally competitive TCFL industries in Australia, we believe this is due recognition and that we have a strong group of these organisations operating in Geelong.

Two of these companies, leading carpet manufacturers Godfrey Hirst and Brintons Carpets were recently inducted into the Victorian Manufacturing Hall of Fame as acknowledgment of their contribution to industry. In addition to an impressive group of industry Geelong is home to world class research and development, training and education providers.

We agree with your comments regarding the need to open up export markets for Australia's TCFL industry. The Strategic Investment Program (SIP) has allowed companies to increase their long-term competitiveness.

We do however, strongly disagree with several of your conclusions and the rationale for arriving at particular viewpoints. Rather than seeing the TCFL industry in a negative light as being uncompetitive, we see this as an opportunity for the industry in Geelong- we call this our TCFL cluster.

Foremost among these disagreements is your position on tariff cuts. We believe that from the information presented in the report the only reasonable conclusion would be to recommend a tariff freeze from now until at least 2010. To do otherwise would seriously risk the future viability of the industry due to the numerous reasons raised in the report. For example, the Commission acknowledges the large labour cost disadvantages and yet it believes a 5% tariff cut is feasible. This position is irreconcilable. Indeed, presently Australia ranks as one of the world's least protected areas for TCFL and the tariff cuts proposed will elevate Australia to leading the world in this area. World leadership is admirable,

but not at the cost of our TCFL industry base and thousands of peoples' livelihoods and the other economic and social dislocation it will cause.

We have questions on economic modelling, since we lost over 1,000 jobs between 1996 and 2001, which was not predicted in the modelling, so we are dubious about the merits of this type of analysis.

Other factors which are referred to in the report include:

- Australia's export barriers are too high
- Investment attraction is difficult given the lack of export access and the already low tariff levels in existence

These are very good reasons for not imposing further challenges on industry through a reduction of tariffs.

History has shown that consumers will not reap any benefits from lower tariffs due to stickiness in prices and the ability of importers to adjust prices to maximise profits.

The Productivity Commission's own modelling suggests that the resource allocation gains from reducing tariffs to 5% after 2005 would be very small. After adding in terms of trade effects, ..the projected community welfare gains would become even smaller and possibly negative. This is a stark argument and one, which begs the question, why drop tariffs if there is no anticipated gain?

We disagree with the Productivity Commission's assertion that little can or indeed should be done to stop further adjustment out of labour intensive standardised TCF production in Australia. This economic rationalist view fails to consider the workers, their families and companies who have survived in these industries. Rather, assistance should be provided to help these companies adopt world competitive practices and they should not be given the message that their industries are not wanted or valued.

2. Geelong is a manufacturing region

Geelong is an area where things are made, where its people and industries contribute to Australia's GDP more so than any other region of its size in the country. This is why we are very concerned about the future tariff and assistance regime in the TCF industry.

Each day Geelong industry produces around:

- 20km of carpet
- 450 motor vehicles, engines and other components
- 7,500 metres of automotive and technical textiles
- 100,000 kg of wool processed
- 50,000 kg of carpet wool fibre processed
- 70,000 Chickens
- 550 tonnes of alumina
- 16,500 tonnes of petroleum
- 250 tonnes of polypropylene-which is made into basic commodities

and a myriad of timber, engineered products, food and consumer goods.

Geelong has traditionally been a manufacturing region. In the 1970's, over 30% of the workforce was employed in this area. The drop to below 20% has been largely driven by reduced tariffs, advances in technology and increases in capital intensity and international competition.

The key manufacturing sectors remain as automotive and components, TCF, metals, foods, timber, chemicals and petroleum. The region has 14,000 people employed in the manufacturing sector over almost 600 companies.

Research by NIEIR has found that 51% of the region's GDP and 41% of regional employment is derived from the manufacturing sector. It follows from these figures that the health of the manufacturing sector is vital for ongoing stability of the region's economic and social foundations.

Geelong's strong manufacturing base is complemented by its overall industry structure and transport infrastructure.

The Geelong Manufacturing Council is a not for profit regional industry group established in consultation with key stakeholders, to promote and encourage manufacturing in Geelong.

The Geelong Manufacturing Council has recently developed a strategic plan for the future of the industry in Geelong.

This strategy refers to the need to add \$2b to our manufacturing export base within the next 12 years. To do this industry needs to:

1. Develop new markets
2. Support existing markets

3. Create innovative supply chains/clusters
4. Achieve technology transfer
5. Develop skills capacities
6. Promote import replacement culture
7. Gain positive community attitude to manufacturing

The GMC and the GTN has worked hard to change the image of the industry with activities such as features in local business magazines (copy of Recent textile article presented), and a range of other publications.

The GMC believes manufacturing offers growth potential in general and the TCF industry represents an important part of the regional industry base and provides opportunities for this growth to occur.

3. Geelong is a major TCF Centre

Geelong as you have heard is heavily reliant on its TCF industry base, indeed Geelong was once known as the 'Bradford of the South' due to its impressive TCF industry base. The range and diversity of industry, research and development capability, training, education and support services have developed over the last 150 years. The coming together of all these has developed a centre of excellence in textiles and indeed we have recently been informed by the Federal Government that the Geelong region is the only TCF regional cluster in Australia.

We have documented the cluster in the following document, which I will tender to the Commissioners. It clearly illustrates the range and diversity of TCF industry, R & D education and training and support services. We believe that this gives us the necessary 'critical mass' to open up all sorts of opportunities to grow this in the future.

The establishment of the GTN by the GMC was acknowledgment of the importance of the industry. The GTN has focused on a number of steps in the evolution of Geelong as a pre-eminent textiles location. These include:

1. Marketing material
 - Geelong Textile Directory
 - Geelong opportunities in textiles in Geelong
 - GTN website

2. Assistance to industry
 - Energy seminars
 - e-commerce initiatives
 - information on funding programs
3. Lobbying
 - To State and Federal Government, Inquiries such as the Productivity Commission
4. Strategic Planning
 - Geelong Textile Strategic Plan 2003

One theme that has arisen is that the cluster is very diversified and self-reliant but has much to gain from building on each other's strengths.

4. Geelong's position as a TCF centre of excellence

15% of Victoria's TCFL industry is located in Geelong, making the TCFL sector a significant generator of regional prosperity. The industry generates direct employment of some 2,200, turnover of \$440m and salaries of \$70m annually. In addition to this, some 300 people are employed in research, education and training in TCFL, taking the total to around 2,500 people and directly affecting some 5-6,000 people and their families.

Geelong is a pre-eminent TCF location that is moving forward. This is evidenced by major recent new multi-million dollar investments in the area, including:

- Melba Textiles new investment in the Geelong plant
- Huyck-plant upgrades, new machinery
- Godfrey Hirst, ongoing major plant upgrades,
- CSIRO Centres of Excellence established

The R& D, Training and Education expertise present in Geelong make Geelong a unique location and this should be further developed through stronger collaboration with industry. Recent research has reaffirmed that the CSIRO Textile and Fibre Technology, Deakin University, and Gordon Institute of TAFE are world class in the provision of services for the TCFL industry.

An exciting development is Deakin University's \$25m Geelong Technology

Precinct which has an important Textile and Fibre component. This project seeks to forge a strong alliance between education and industry, and is vital for the future of leading edge manufacturing in Geelong and indeed Australia.

It is precisely for this reason that we believe the region has an opportunity to develop its cluster of textile excellence into a world class centre following the examples of several areas around the world.

The terms of reference ask the Productivity Commission to give particular attention to impacts on regional areas with significant TCF activity. The Productivity Commission's own modelling predicts Geelong (part of the Barwon region), would incur the largest negative employment effect in Australia from the recommended tariff cuts.

5. Tariffs

We disagree with the notion that tariff levels **should not** be linked to what other countries do. This does not stand close scrutiny, as the reality is industry is exposed to international trade and the assertion that this should not be taken into account is clearly wrong.

The Commission's own modelling says that removing support for TCF production would provide little overall efficiency gains for the economy. Why recommend these cuts when the costs could be so high and the benefits negligible? The negative impacts on people's lives and loss of employment demand that this approach be reconsidered

The attitude must be driven by some ideological stance of free trade rather than a notion of logic of wanting to promote an internationally competitive industry. What constitutes an internationally competitive industry, when all countries around the world support their TCF industries. At the present time we must be more than competitive as one of the lowest protected TCF markets in the world?

The Productivity Commission has stated that it has concerns with the effect of too dramatic a decrease in tariffs. For these same reasons we argue that the 2005 cuts should not be pursued and the proposed 2010 cuts should not be undertaken before a further review in 2008. This will

allow the full effects of SIP to be evaluated and hopefully more than 5% of companies will be utilising this program.

We agree with the Productivity Commission that the Federal Government should secure better access to overseas markets for TCF as with manufacturing as a whole and a full and thorough evaluation of this should be conducted to determine how effective and what better market access entails.

While the level of exports has doubled in real terms over the past decade, many Australian participants believe that this growth has been restricted by a variety of trade barriers in other countries.

The Productivity Commission report states that trade barriers remain high in both developed and undeveloped nations alike, surely this is irrefutable evidence that to drop our tariffs further from what are already in comparison with the rest of the world low levels would be at the peril of the local manufacturing industry.

The Productivity Commission maintains that to a large extent, structural adjustment in Australia's TCF sector is a response to global pressures. The low profitability of the industry cited in the Productivity Commission report, is another argument that tariffs should not be reduced in the foreseeable future.

The Productivity Commission maintains that while labour cost disadvantages cannot be offset by high productivity, the general view is that there is now little if any productivity difference between Australia and many suppliers in China. If this is so why are we about to decrease tariffs? Surely this is a recipe for an import based TCF sector and against the best interests of local manufacturing?

This is surely evidence that tariffs should not be further reduced.

The Position Paper outlines the various challenges for the TCF industry in Australia and makes the case for no further reduction in tariffs until this situation improves. These challenges include: market access, labour cost disadvantages and world protection levels compared to the rest of the world.

We disagree with the Productivity Commission's assertion that there is little that governments in developing countries can do or indeed should do to stop labour intensive, standardised TCF producers migrating to

developing countries. All TCF industries worldwide are protected and certainly this view is against world trends and practices.

What government's can and should do is assist their industries to restructure so they can be competitive and remove export barriers that exist for Australian manufacturers.

If the Productivity Commission's own modelling shows that the economy wide effects of tariffs and SIP reduction would be very small, then the question must be asked why is the Productivity Commission recommending tariff reductions at all?

6. Strategic Investment Program (SIP)

The SIP has been operating such a short time that its effects cannot be measured. We agree 3 years is too short a time to evaluate the effect of the SIP, and the fact that only 5% of companies have accessed the scheme is evidence that it has not had time to be taken up by a cross section of industry. This is another good reason not to reduce tariffs further.

SIP funding has been positive in many respects and several Geelong Region companies have accessed the program. However, smaller companies find the scheme too difficult to access and therefore have not taken it up to the extent they could have.

The inability of early-stage processors to access SIP or another funding programs is unfair. We propose that some form of assistance be made available to this sector similar to the SIP, but not reducing funding for SIP participants. These companies like the rest of the industry are similarly exposed to the vagaries of international competition. Indeed, we are seeing the brutal nature of international competition at the present time where Geelong Wool Combing, a modern state of the art, \$85m facility located in Geelong is currently being forced to rationalise its operations due to a market downturn.

This company is prevented from accessing programs such as the SIP, the very program that is used to assist companies achieving international competitiveness.

We believe that early stage processors should be able to access programs to assist them achieve and maintain international competitiveness.

7. GTN cluster model

The Geelong Textile Strategic Plan will ensure that the region continues to develop further.

We agree with the Productivity Commission that dialogue between firms Research and Development, Education and training providers is important and are taking steps to encourage this through activities of the GTN.

We agree with the Productivity Commission that there are opportunities in downstream processing. Geelong TCFL companies have been pursuing downstream processing and have had some success in this area with Riverside Textiles, part of the Godfrey Hirst Group expanding into this area. Melba Textiles have expanded their operations, Huyck have commissioned new machinery, Care Essentials have expanded their range of technical textiles and many more fine examples exist in Geelong.

CSIRO has recently established two Centres of Excellence in Textiles in the Geelong Region. They are in Technical Textiles and Advanced Wool Products. These centres are aimed at stimulating advanced training, education, research and product development in TCF industries. We look forward to increasing collaboration with these groups to ensure that the industry has access to leading edge research and development.

8. GTN-the future opportunities

It is the view of well-respected Textile Consultants, Kreitals Consulting Group that: “if the GTN were to take leadership in implementing strategies that are designed to drive TCF activities within the region then that is likely industry will become more engaged and new entrants could be attracted to Geelong”.

The funding model of the GTN will continue be a partnership of industry, and government. The strategy lists a number of areas that could be further developed in Geelong. These include: strategic partnerships, information sharing, research and access to new markets, integrating supply chains, training and education, research and development.

The scope for collaboration is important and gives us great hope for the future, providing that the environment is not undermined by the proposed tariff reductions.

The Productivity Commission has acknowledged the importance of linkages in areas such as R&D, Education and Training. We are very optimistic about the prospects of growing these linkages with the location of world-class facilities in Geelong.

The Productivity Commission has acknowledged the contribution that TCFL make in terms of employment, technological development, innovation and design and this is no more evident than in the Geelong Region.

9. Concluding Comments

We believe that the significant reductions in tariffs already achieved should be halted at this point and the reasoning for this is very well demonstrated in the Productivity Commission's own Position Paper.

The economic modelling does not support a reduction in tariffs. The Productivity Commission own modelling shows resource allocation gains from a decrease to 5% after 2005 would be small and after adding in terms of trade effects, the projected community gains would even be smaller, and possibly negative.

The Productivity Commission's 1997 report did not predict that Geelong would lose over 1,000 jobs to this point, so we must base our perception on past results and therefore we have grave concerns about the reliability and accuracy of economic modelling.

We also believe that the investment attractiveness of Australia is a significant consideration, in light of our position as a relatively low tariff country. It will be more difficult to attract investment to Australia if tariffs are further reduced.

Geelong has world class manufacturing industry, however the world view, which see all countries support their TCF industries, means that we require certainly no less support than the rest of the world. The situation of worldwide protection of TCF industries is a reality and while this exists Australia is forced to protect its TCF industry or have no industry.

Geelong has a bright future in TCF, providing that tariffs cuts are not pursued, for this will threaten the industry and critical mass that presently comprises the industry.

Industry should be congratulated not punished for their efforts to increase productivity and competitiveness and the real and important role they play in the community and the lives of the 6,000 families it supports in the Geelong Region.