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**Productivity Commission inquiry into Textile, Clothing & Footwear
Assistance –**

Coles Myer Supplementary Response

This submission addresses the issue of the Excluded Goods Schedule as discussed on pages 101 and 102 of the Productivity Commission Position Paper dated April, 2003.

Coles Myer believes that the Textile, Clothing and Footwear (TCF) industry restructuring program justifies a reappraisal of the purpose and outcomes of the Excluded Goods Schedule (EGS).

As the Position Paper makes clear, the range and volume of apparel and footwear produced in Australia is shrinking as manufacturers relocate offshore. Circumstances have changed to the degree that many specific TCF products are not, or at some future point may not be, manufactured in Australia.

It is our view that a tariff's usefulness is negated if there is nothing behind it requiring specific protection and listing a range of goods in the EGS simply imposes a tax on consumers if there is no locally manufactured substitute.

As the TCF sector restructures, it is likely to concentrate on areas where it is internationally competitive. This will leave gaps in the local manufacturing range so that certain categories of merchandise such as rubber gloves may no longer be produced locally.

The EGS rationale that removes "a wide and comprehensive range of competing goods" from the scope of the Tariff Concession System (TCS) is therefore inconsistent with developments in the TCF sector. Existing within the range of TCF goods covered by the EGS, are discrete categories such as gloves, bras or socks that do not compete.

In our view the previous efforts to remove certain categories, such as specialist footwear, incontinence pants and rubber gloves from the EGS supports this

contention and establishes a precedent. But undergoing this process each and every time a specific category of merchandise is identified as no longer being produced in Australia is a difficult, expensive and time consuming process in the current environment.

We suggest that a more equitable and efficient approach would be to remove all TCF products from the EGS so that apparel and footwear is subject to normal TCS rules.

Eliminating this special privilege means treating apparel and footwear the same as other industry sectors. If a case is not proven because a local production capability exists, then concessional entry is denied and the local manufacturer maintains the protective element of the tariff. But if there is no local production the benefits flow through to the consumer.

Removing apparel and footwear products from the EGS also brings greater balance to the marketplace. TCF products are included in by-laws schemes, preference arrangements and Trade Agreements resulting in targeted tariff distortion, apparently in conflict with the principles underpinning the EGS.

Specific Tariff reduction for Sporting Footwear

We are also aware of specific comments in relation to sporting footwear and wish to bring the following points and clarification to the Commission's notice.

1. Claims regarding the representative nature of the Sporting Footwear Importers Group and the size of its market share appear to contain some factual errors.

The group's submission states that the list of companies comprising the group *"represent about 70 % of the demand for sporting footwear for track, field and court events."* (refer Sporting Footwear Importers Group submission, page 1.) We note this is not substantiated by source references or independent research data. Some obvious brands excluded from the list include Nike, Fila, Puma and Reebok.

Furthermore, the submission also states that *"about 75 % of consumer requirements for sporting footwear is marketed through four major specialist retailers..."* In contrast to this claim, market research conducted by Roy Morgan indicates that the listed stores represent less than 50 % of demand. Confidential Attachment A provides recent national non-food retail tracking market research data.

The sporting footwear market is mature and stagnant. The retail market is not as simple as portrayed in the Sporting Footwear Importers submission because it comprises, inter alia:

- Regional retailers, such as Amart in Queensland, Paul's in NSW, Sportsmart in Victoria, and Jarmans in South Australia.
- Factory outlets, operated by major brands such as Nike, Adidas, etc.
- Department stores, such as Myer Grace Bros, David Jones, Harris Scarfe, etc.
- Sport specialist retailers, such as Footlocker, The Athletes Foot, Rebel Sport, etc.
- Discount Department stores, such as Kmart, Target., Big W, Discount Shoe Wholesaler, etc.
- Boutique retailers, such as Runners World, etc.

Refer also to pages 14 and 15 of Confidential Attachment A.

2. Language such as "*cheap, imitation*" is both inaccurate and misleading.

The application of a global brand to a product is often associated with a certain quality or price positioning. But non-branded footwear often incorporates the same or similar methods of construction, technology and components/materials. Moreover, it is often sourced from the same factory as branded footwear. The commercial reality is that without the brand the consumer perceives no value that warrants a premium price.

Investment in R & D resulting in product innovation is often a feature of high priced sporting footwear. First mover advantage is leveraged in terms of marketing and pricing. However as with other products such as motor vehicles and consumer electricals innovation quickly becomes standard. It is also relevant that superseded and last season's sporting shoes are regularly offered at substantial discounts, indicating that the price premium does not attach to the specific engineering or technology component of the sporting shoe. It is therefore incorrect to suggest that product innovation should be used as an indicator of market differentiation.

At the retail level the majority of sporting footwear products form a single marketing category. The basic and minimum qualification for inclusion in this category involves a consideration of whether the sporting footwear is fit for purpose. The approach at this level quite logically disregards any reference to brand or price although the following? additional marketing, fashion components and perceived quality factors may influence final pricing and ranging decisions:

- Within the sporting footwear category fit for purpose products share similar design and construction features so that it is improper to

distinguish between them by virtue of a particular narrow or contrived definition.

- The extent of engineering and technical capability along with product colour, style etc. are issues of choice.
- A recent Channel 7 'Today Tonight' report engaged Viclabs to compare the quality of various brands of running shoes ranging in price from a \$25 pair of Target runners all the way up to a pair of \$250 Asics women's Gel Kayano VIII runners. (This report aired on 18/9/02.) The result was that the report could find no evidence to substantiate claims of high performance, concluding that lower priced shoes compared very favourably with the high priced shoes, even outperforming them in some instances.
- The critical feature of sporting footwear is its design purpose. Sporting footwear is designed for either specific or generic sports application in the same way a 4WD is designed for off road use and a tractor is designed for pushing or pulling. An Olympic runner can commission a hand made shoe but the specifications remain essentially the same as a mass produced product.

Therefore we believe that there can be no artificial divide in the broad sporting footwear category based on notional attributes or concepts of quality.

Due to the nature of the TCF sector and its restructuring process, an industry wide approach to the issue of duty concession availability is required. Removing all apparel and footwear products from the EGS best serves the interests of equity, efficiency and transparency. A focus on individual categories or segments of a category will fail to satisfy these requirements.

Summary

Coles Myer supports the general proposition that all apparel and footwear products should be removed from the Excluded Goods Schedule. Structural changes to Australia's manufacturing base suggest it is unjust to impose high protective tariff imposts on consumers if there is no local manufacturer to be protected. Therefore we believe that it is appropriate to grant importers access to the Tariff Concession System so that this deadweight cost can be eliminated in circumstances where there is no competing Australian manufacture of the particular good.