



17 June 2003

Dr David Robertson  
Textile, Clothing & Footwear Inquiry  
Productivity Commission  
P.O. Box 80  
BELCONNEN ACT 2616

Dear Dr Robertson,

Thank you for the opportunity on 5 June 2003 to appear at the Geelong public hearing for the Productivity Commission's current inquiry into Post-2005 Textile, Clothing and Footwear Assistance Arrangements on behalf of the Victorian Farmers Federation.

As agreed during our appearance, please find attached a copy of the presentation delivered at the public hearing.

**Supplementary submission: economic models and effects on agriculture**

At the hearing, you requested supplementary written comment regarding the economic modelling detailed in the *Review of TCF Assistance: Position Paper*.

The Position Paper reports the agriculture, forestry and fishing industry sector would be adversely affected as a downstream effect of reduced TCF assistance. The VFF does not support this assumption and believes such a conclusion does not reflect the reality that commodity prices are determined on the international market.

The Position Paper states, "With a reduction in TCF output, there is also a projected reduction in the sector's demand for inputs from agricultural industries such as cotton and wool" (page 206). In particular, the Econtech modelling projects a -0.3 per cent effect on agriculture industry sector output from a 5% TCF tariff and no SIP.

The VFF rejects this conclusion. The agriculture sector is likely to benefit from tariff and assistance reductions.

Any reduction in domestic demand for wool and cotton resulting from tariff reductions is unlikely to impact on agricultural output.

Almost all (95 per cent) Australian greasy wool is sold on the open auction with the price determined by international market demand (source: Australian Wool Exchange).

Australia exports around 80 per cent of its greasy wool production (source: Australian Wool Innovation Ltd). China is Australia's most important export market for wool, taking 42 per cent of greasy wool exports. China is an important market for quality Australian wool because the Chinese, with their labour cost advantage, are able to economically afford more expensive, quality Australian greasy wool and blend with lower quality, cheaper wool fibres, to meet product specifications.

As stated in National Farmers' Federation submission to the review, Australian TCF protection increases the cost of clothing, reducing demand for clothing and thus cutting the demand for Australian fibres by the local TCF sector. In addition, the export of raw Australian fibres may be curtailed to the extent tariffs increase exchange rates or discourage importation of clothes made overseas from Australian fibre.

Australian wool production has almost halved since 1989/90, with 2002/03 forecast greasy wool production at 545 kilotonnes (source: ABARE, *Australian Commodities*, vol. 10, no. 1, March 2003, p 173). Production has reduced following restructure within the farming sector as many woolgrowing operations were unprofitable during the 1990s and have diversified to other agricultural activities, including cropping and prime lamb production. Some Victorian woolgrowing properties have been purchased by companies developing blue gum plantations.

Wool industry adjustment has been in response to economic returns on wool in the international market and not driven by downstream changes in domestic consumption.

Demand for cotton and domestic prices are also determined by international factors. The majority of Australian cotton crop is exported. ABARE reports the world cotton price is forecast to rise by 7 per cent in 2003/04 as global stocks fall and consumption outstrips production. China is expected to be a major contributor to increased world demand driven by an expanding textile industry and reduced barriers to importation. (source: ABARE, *Australian Commodities*, vol. 10, no. 1, March 2003, p 31).

The reality is the impact of tariff reductions in reducing domestic TCF manufacturer demand for wool and cotton inputs is a negligible factor on agricultural production and commodity prices for these fibres.

The Centre for International Economics' modelling reports:

"the output of the three TCF sectors (and livestock) declines, while the output of other industries increases. The decline in livestock, although it is negligible, is caused by the decline in the output of leather products." (Source: CIE, *Modelling International Developments: GTAP simulations of TCF protection removal*, March 2003, page 14)

The modelling shows a -0.03 per cent change in livestock sector output from baseline (table 2.3, page 15) based on unilateral removal of domestic textile tariffs.

As with wool and cotton fibres, the sale of hides is primarily an export focused industry with domestic pricing determined on the international market. Verbal advice provided to the VFF by Mr Alan Hopkins, Managing Director of Tanwell International, who has extensive experience in the processing and marketing of livestock hides, indicates that even the complete removal of domestic processing capacity for hides would not have a noticeable affect on prices.

The evidence runs contrary to the economic modelling which assumes decreased local manufacturing consumption of agricultural fibres and hides will impact on agricultural production. International demand is the main driver for price and production in Australia.

The modelling reported in the Position Paper indicates that export industries are projected to benefit from reductions in TCF assistance from the "*projected small decline in capital cost (relative to wages) and the depreciation in the Australian dollar*" (page 205) and has cited the mining sector as such an industry.

Australia's farmers and farm exports would also benefit from even a minor depreciation in the Australian dollar resulting from tariff reductions. ABARE analysis shows the effect of a one per cent fall in the exchange rate represents \$17.3 million positive impact to Australia's sheep industry (source: ABARE, *Australian Commodities*, vol. 8, no. 2, June 2001, p 251).

Yours sincerely,

Clay Manners  
General Manager Policy

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# **Presentation to the Productivity Commission**

## **Review of TCF Assistance.**

**Public Hearing**  
**City of Greater Geelong – City Hall**  
**Cnr Little Malop & Gheringhap Street, Geelong.**

**5 June 2003**

**Victorian Farmers Federation**  
Clay Manners, General Manager Policy  
Simon Price, Senior Policy Analyst.

*Check against delivery.*

Chairman David Robertson and Associate Commissioner Phillip Weickhardt.

Thank you for the opportunity to present before you today on the Productivity Commission's review of Textiles Clothing Footwear and Leather industry assistance.

The Victorian Farmers Federation has been requested by the National Farmers' Federation to represent its written submission<sup>1</sup> to this review during the public hearing process.

The National Farmers' Federation submission was developed following extensive consultation with member organisations, including:

- WoolProducers, the peak national woolgrower representative organisation representing approximately 14,000 wool producers nationwide;
- Cotton Australia Limited; and
- the VFF.

It is important to note the support and involvement of WoolProducers and Cotton Australia in developing the NFF submission because growers in these industries are active participants in the whole TCF industry and have an interest in the future of the down-stream processing sector in this country. WoolProducers has written to the Commission expressing their support.

Comments not specifically related to the NFF written submission represent the position of the Victorian Farmers Federation.

By way of brief introductory comments, we will outline the thrust of the NFF submission to the inquiry, and then make comments on the Position Paper released by the Commission.

### **The Importance of Farming to Australia**

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<sup>1</sup> Submission # 104 – National Farmers' Federation.

Farming is an important sector of the Australian economy.

Agriculture makes up approximately 3 per cent of national GDP, having a value added of \$20.5 billion in 2001/02.

Nationally, agriculture provides approximately 20 per cent of our goods and services exports, worth \$30 billion in 2001/02. The value is estimated to decline to 17 per cent or \$27 billion in the current year due to drought.

From a Victorian perspective, agriculture's gross value of production was \$8.3 billion in 2001/02 and generates approximately 35 per cent of the state's exports.

Agriculture is one of the largest employers in Australia, providing over 380,000 jobs or 4 per cent of Australia's labour force.

Many rural communities depend on a vibrant agriculture sector for their prosperity. Agriculture contributes more than 30 per cent of employment in 66 per cent of small non-coastal towns.

This is an important point. There has been a strong argument – we would suggest scare-mongering – about the regional effect of potential displaced workers resulting from textile, clothing, footwear and leather industry restructuring brought forward by tariff reductions. The position paper indicates TCF employment in regions of Wodonga/Wangaratta and Geelong are 2.3 per cent and 2.2 per cent of total employment<sup>2</sup>.

Agriculture, which is placed at a cost disadvantage because of tariffs, contributes a third of employment in small rural towns.

### **NFF views on TCF assistance.**

Australian wool and cotton producers rely overwhelmingly on selling fibre on international markets. Tariff distortion favoring domestic TCF industries provides little or no benefit to farmers, and in fact, raises some input costs.

Tariffs favour import-competing industries at the expense of export-oriented industries, such as agriculture which exports approximately 70 per cent of products. Australia's manufacturing industry tariffs imposed \$95 million to the costs of primary production inputs in 2001/02, reducing our international competitiveness.

Australian farmers are hurt by domestic tariffs because the nature of the international commodity markets mean these costs cannot be passed on. Further, tariffs are restricting industrial relations reform by protecting manufacturing industries from pressure to contain labour costs. This results in less political support for reforms that would benefit labour intensive industries such as agriculture.

### **Employment**

The existence of high tariffs have not stopped the TCF industry from losing domestic market share or employment.

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<sup>2</sup> Productivity Commission, *Review of TCF Assistance: Position Paper*, April 2003, page 47.

Over the past 10 years the share of imported clothing on the domestic market rose from 19 to 45 per cent. Imported footwear rose from 36 to 65 per cent.

Employment fell by more than 40 per cent over the same time period. This indicates a continuing need for the industry to adjust and the retention of tariff support will not prevent these pressures.

That there will be ongoing rationalisation of the industry is a point recognised even by some organisations who have submitted requesting retention of tariffs at the current level. The Australian Wool Processors Council, for example, reports domestic and international over capacity<sup>3</sup>.

Australian consumers and industries should not be penalised and taxed higher to ‘protect’ employment in uncompetitive firms or roles that will be lost irrespective of any reasonable level of assistance.

The NFF argues that any targeted adjustment assistance could be provided to re-skill employees and make the employment transition as easy as possible.

The NFF is active in pursuing international trade liberalisation. It is the NFF experience that the rest of the world watches Australia closely and our international credibility could be totally undermined if we say one thing at the WTO on tariff reform but do the opposite at home.

The NFF conclusion is that TCF tariffs should be reduced as proposed at 2005, and eliminated by 2010 in line with our APEC commitments. Industry support programs should be reduced in line with tariff reductions and our preference is for such programs to be used to assist TCF industry employees affected by industry rationalisation with re-training and skills development to facilitate transition to on-going employment.

### **VFF position and the Geelong region**

As the Commission is meeting here in Geelong, and many of the local submissions to the inquiry have emphasised the importance of the TCF industry to this region, it seems appropriate to comment on the importance of the region to our farmers.

Geelong has long been a major centre for wool growing, and export from the port of Geelong. As the Geelong Chamber of Commerce have stated in their submission:

“Overall, the wool industry in the region, both in primary production and value-added processes, exerted a powerful influence on Geelong’s early economy.”<sup>4</sup>

Geelong remains a very important player in the TCF and wool industries and benefits from the proximity of education and research providers including CSIRO’s Belmont Textile and Fibre Technology centre, Gordon institute and Deakin University.

The development of linkages between these education and research providers and local TCF industry will have a key role in assisting TCF firms adjust to products that can be competitive in the market.

The Geelong region remains important to the VFF in setting policy for woolgrowers. The current President of the woolgrowing commodity group is a woolgrower from this region, as is the VFF’s general councillor representing south-central Victoria. Our General Council, the main policy setting

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<sup>3</sup> Submission # 45 – Australian Wool Processors Council Inc, page 2.

<sup>4</sup> Submission # 62 – The Geelong Chamber of Commerce, page 2.

body of the VFF, also includes a south-west region woolgrower with experience as a director of the International Fibre Centre established by the previous State Government.

In this context I advise the Commission of March 2003 resolutions of the VFF General Council, before the position paper was released, on TCF tariffs, to assist in your deliberations:

*“The VFF recommend NFF make a submission to the Productivity Commission Inquiry into Post-2005 TCF industry assistance supporting the proposed tariff reductions from 1 January 2005 and cessation of the SIP and EOAP programs on 30 June 2005 as currently scheduled. TCF tariffs should be progressively reduced to 5 per cent or less by 2010.”*

The Commission will note the VFF policy is slightly different to that of the NFF, insofar that our Victorian members believe the budgetary assistance should be removed completely from mid-2005. I note that the position paper struggles to quantify the benefits of the SIP program and many of those who have submitted have also expressed frustrations at the inadequacy of the current initiatives.

VFF notes the Australian Wool Processors Council submission which indicates early stage wool processors are essentially excluded from access to SIP<sup>5</sup>.

The program does not benefit the whole TCF industry – which was the expectation of the community when it was introduced – and runs the risk of delivering false hope for firms and, by supporting new capital investment, contributing to the over-capitalisation of the domestic industry as a whole.

For the record, the content of the above resolution has been debated by the VFF’s wool commodity committee, and was successfully carried.

The VFF General Council has also adopted the following policy:

*“The VFF strongly urges the Federal Government to increase the pace of reforms to introduce greater workplace flexibility and reduce industry protection. These reforms will strengthen the competitiveness of Australia’s business environment, will benefit export industries and improve employment opportunities.”*

The second resolution is important because there is a strong concern in the farming sector that industries that have received tariff relief over the past 3½ years, have not taken the full opportunities to adopt workplace flexibility measures to make the costs more competitive.

The concern of the VFF is that tariff protection is allowing the organised trade union movement to seek uneconomic rents from companies to buy industrial harmony. The pressure is not there for the companies to resist or to argue for further flexibilities of the industrial relations system which would benefit themselves, the whole economy and particularly small businesses that have minimal power in centralised award negotiations.

To cite an example, the VFF refers to the recent National Wage Case determination. The Australian Industry Group, which represents some of the larger TFC firms, submitted that a \$10 minimum wage rise would be appropriate this year. Whereas the small businesses, represented by the Australian Chamber of Commerce and Industry, and farmers represented by the National Farmers Federation, argued for a zero increase in the minimum wage recognising the impact of drought and uncertain economic conditions on business.

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<sup>5</sup> Submission # 45, page 13.

The AIG's position that employers could accept a wage rise – their members often have an ability to pass on costs – led to a \$17 minimum wage increase determination, the second largest ever handed down. This rise flows on to the farming sector and small business.

The Commonwealth Department of Employment and Workplace Relations (DEWR) has submitted to this inquiry. VFF notes that only 16 per cent of TCF employees have their conditions determined by a federal certified agreement and only 5 per cent of agreements include provisions permitting use of AWAs.

More than one in four agreements expressly excludes use of Australian Workplace Agreements.<sup>6</sup>

The industry is not seriously taking advantages of flexibilities that are in place.

Of more concern was the DEWR finding that 43 per cent of agreements include provision for paid leave for trade union training<sup>7</sup>. Australia's consumers and industries that are down-stream users of TCF inputs should not be paying extra to allow unions to negotiate such sectional arrangements that are neither in the public nor companies interests.

Farmers, and I suspect the general public, would be appalled to learn they are being cost-disadvantaged by the tariff system for companies to fund their employees to not work and instead attend trade union training courses.

### **Comments on the Position Paper and Submissions to the Review**

In response to the Commission's position paper, the VFF is disappointed in the proposal and is concerned the Commission risks derailing further the momentum to strengthen the economy by opening it up to competition.

### **Tariff reductions**

Despite the Commission's finding that further structural:

“... adjustment and job losses are inevitable in the industry, almost regardless of future assistance arrangements”<sup>8</sup>

far too many submissions to the inquiry - which were from rentseekers and their political and regional cheersquads – have called for either an ongoing tariff rate freeze for the industry or a further tariff rate freeze following reductions on 1 January 2005.

This provides a clear indication that many in and around the industry wish to use political influence to maintain their unfair protection and continue to impose higher costs to Australian consumers and exporters.

The claims to build political support have been most extreme. According to those opposed to tariff reductions, reforms will result in anything from job losses, the ‘annihilation’ of this region's TCFL industry<sup>9</sup>, increased crime, increased disease<sup>10</sup> and family breakdowns<sup>11</sup>.

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<sup>6</sup> Submission # 84 – Department of Employment and Workplace Relations, page 3.

<sup>7</sup> Submission # 84, page 4.

<sup>8</sup> Productivity Commission, *Review of TCF Assistance: Position Paper*, April 2003, page xii.

<sup>9</sup> Submission # 62, page 8.

<sup>10</sup> Submission # 42 – Victorian Council of Social Service, page 2.

<sup>11</sup> Submission # 23 – Geelong West Branch, Australian Labor Party, page 2.

It is evident from some of the more sensible submissions that changes in Australia's exchange rate will have as significant (if not greater) impact on the competitiveness of our domestic TCFL industries – but we do not see the same political extremism in debate about exchange rate issues as has been evident in this debate on tariff reform.

The Commission has raised four tariff reduction options for consultation. The Commission's preferred Option 4 is not acceptable as it seeks to delay the reduction of tariffs considerably over the five years between 2005 and 2010 and allows retention of high tariffs for apparel and finished textiles to 2015.

If this is adopted it will be a major win for the political activists who will see an opportunity to again lobby the Commission and Government in 2008 to further delay the next round of tariff reductions.

Such a result will encourage domestic 'gaming' by the rentseekers in the industry and union movement, which could have very negative impacts in terms of encouraging firms to adapt to the international climate. Further, such a decision will send a very negative signal to our export markets.

Maybe most importantly, Option 4 will remove the firm certainty that the majority of the industry is seeking. VFF notes the submission from Pacific Brands which clearly calls for:

“clear enunciation of an end-point tariff required by Government and a plan to get to this objective”<sup>12</sup>.

The Council of Textile and Fashion Industries of Australia Ltd (TFIA) notes one of two most important issues for the sector is **certainty**<sup>13</sup>.

The VFF position is to support Option 2 representing a progressive reduction in all tariff categories annually to 2010, to maintain our APEC commitments to reduce industry support.

However, the VFF argue the option should not result in tariffs at 5 per cent, but lead to the complete removal of tariffs. There is no justification for retention of the tariff tax of 5 per cent on imports when such assistance is easily swamped by changes in the exchange rate.

The VFF also argue the Commission should, as part of this review, support the request to reduce yarn and other duties currently at five per cent 'nuisance tariff' level, to zero per cent. This has been raised in submissions to the inquiry, including by Melba Industries<sup>14</sup> which has operations in Melbourne and Geelong and is a user of woollen product.

By way of further comment, a tariff freeze is not a panacea for the industry. In recent weeks a local division of Pacific Brands, Candy Australia, has announced its intention to close operations because of the underlying uncompetitive position. This will result in approximately 100 job losses. This illustrates to the local community that doing nothing is not a viable option.

At this stage, it is important to emphasise that it is average consumers and exporters that suffer under tariff arrangements. TCF tariffs impose \$1 billion additional cost on Australian consumers

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<sup>12</sup> Submission # 72 – Pacific Brands, page 1.

<sup>13</sup> Submission # 75 – The Council of Textile and Fashion Industries of Australia Limited, page 2.

<sup>14</sup> Submission # 83 – Melba Tex Pty Ltd, page 6.



and the current budgetary assistance imposes a \$700 million cost over 5 years on the Australian taxpayer.

Manufacturing industry tariffs impose \$95 million additional input costs on agriculture and \$2.3 billion additional input costs on service industries<sup>15</sup>. This is an important consideration for this particular region where there is a growing economic and employment reliance in the local economy on the service and tourism industries.

### **Budgetary assistance**

The Commission has requested feedback on the type of budgetary assistance to be provided to the industry to help the process of adjustment.

The VFF position is clear cut.

We note the NFF position which is that if assistance is to be provided for the purpose of facilitating adjustment and minimising negative impacts on the community, measures should be non-distorting and not encourage firms to continue uncompetitive production.

From this perspective, the NFF recommend assistance be targeted to assist TCF industry employees with re-training and skills development to facilitate transition to ongoing employment.

This will be an important issue in regional centres where the flow-on effect of job losses may impact harder. Such a program should supplement existing re-training assistance that may be available under the Commonwealth's Job Network program.

### **Conclusion**

The VFF support the scheduled reductions in tariffs from 1 January 2005 and the progressive removal of tariffs by 2010. Five per cent tariffs should also be removed from 2005.

If budgetary support is to be retained to the industry post-2005 it should be targeted at assisting those persons displaced by adjustment.

The VFF emphasises the need for the Commission to continue with a plan of tariff reductions for the sector to deliver certainty to all involved and encourage genuine attempts at adjustment.

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<sup>15</sup> Productivity Commission, *Trade and Assistance Review 2001-02*, Canberra, December 2002, table 3.2, page 3-12.