



**final submission to the productivity
commission
post 2005 textile, clothing and footwear
assistance arrangements**

June 2003

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Summary

The Productivity Commission (PC) has failed to make a case for further tariff reductions and reductions in industry assistance.

In fact, the evidence presented by the PC in its Position Paper makes a cogent case for the retention of existing tariffs and current levels of industry assistance.

The PC has presented no convincing evidence for a continuance of Australia's policy of tariff reductions. By its own admission there is no empirical evidence for this policy. The PC's preferred position on tariffs will lead to further and significant job losses in the industry.

The PC has failed to substantiate the economic costs associated with tariff reductions. They have failed to evaluate any social costs associated with tariff reductions. They have failed to present any evidence that consumers gain from these tariff reductions.

The PC has failed to substantiate their argument as to why SIPS should be reduced.

The PC has failed, on all levels, to come to grips with the issue of outworkers in the TCF sector and has provided tacit support for the undermining of Australian legal and industrial minimum standards and the integrity of our taxation system.

The PC have correctly recognized that loss of entitlements is a major issue for TCF workers, but have washed their hands of any solution by suggesting it is an issue beyond the scope of their inquiry.

The PC has correctly recognized that displaced TCF workers need assistance to find new employment. It is incumbent upon the PC Commissioners to provide

specific and detailed recommendations in their final report that places the issue of labour adjustment at the forefront for consideration by the Federal Government.

Why the PC is wrong.

The Productivity Commission (PC) remains committed to an ideological view regarding assistance to industry and are seeking complete removal of TCF assistance without having presented any evidence to support their recommendations.

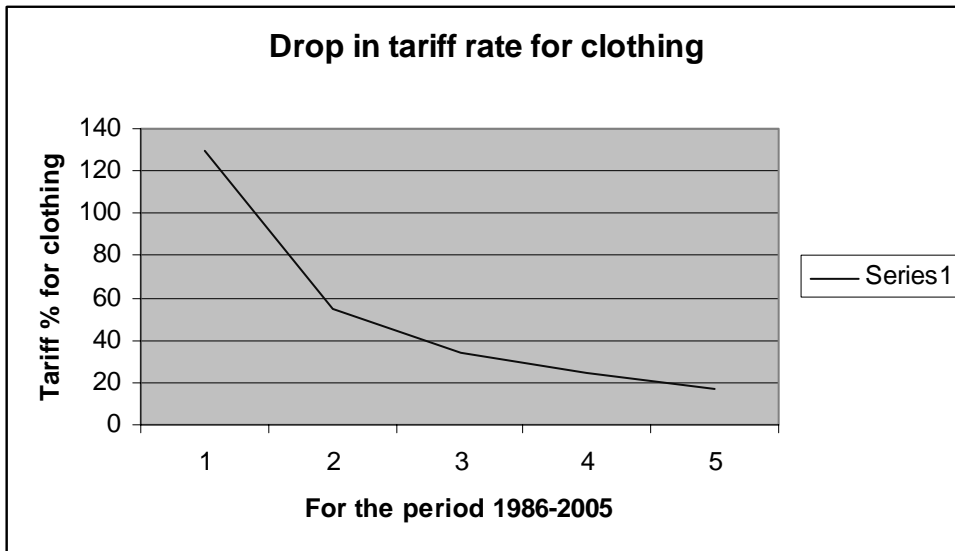
The PC's own economic modelling shows that the gains from removal of industry assistance are 'very small'.¹ Their estimates are that it would cost 75cents per Australian per year to assist the TCF sector.

The PC's economic modelling shows that removal of TCF assistance will result in deterioration of Australia's current account deficit through an increase in imports.²

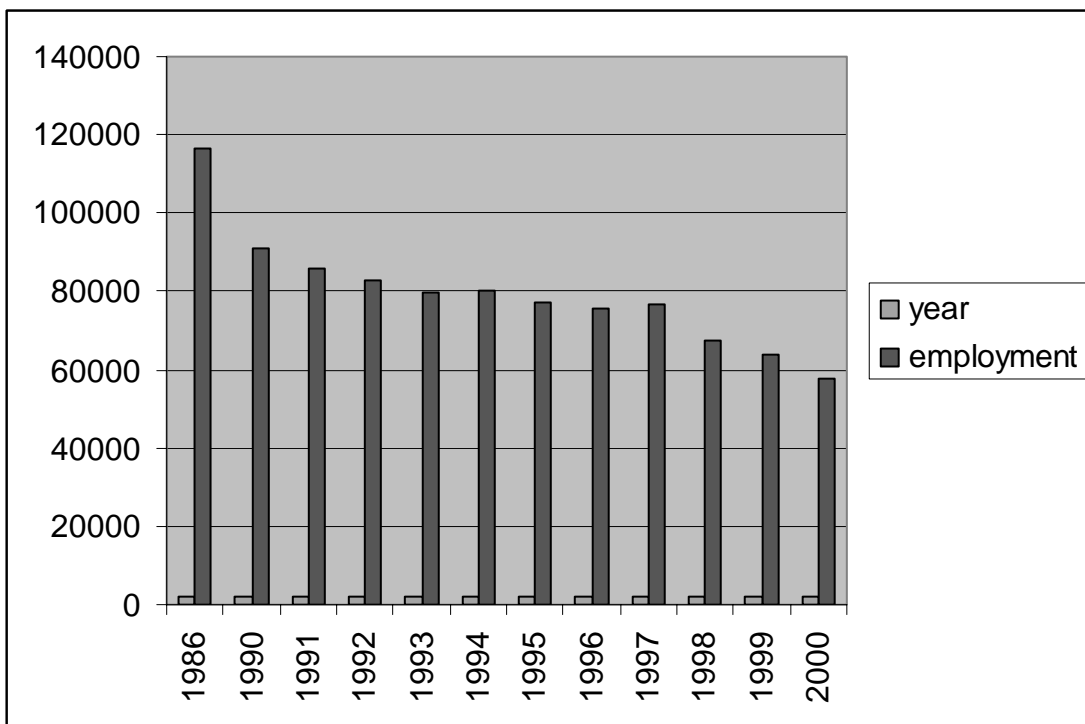
There is no recognition by the PC of the linkage between lower tariff rates and lower rates of TCF employment. The below graphs, which were included as part of the TCFUA's initial submission to the PC, clearly show a direct linkage between the two. The PC Position Paper refuses to acknowledge any such linkage and therefore is content to recommend further tariff reductions.

¹ Productivity Commission Position Paper. April 2003. Page 200.

² Ibid. Page 201.



Graph 1 shows how dramatically TCF tariffs have fallen in recent years³



Graph 2 shows the steady decline in TCF employment since 1986⁴

³ IAC 1997 Report, Pg 394.

⁴ ABS. TCFL Employment. ANZIC 4d by Financial Year.

Because the PC's modelling was so inconclusive in terms of benefits of these reductions it conceded that "No absolute science can be brought to bear in weighing up these considerations"⁵ In other words, the PC is arguing the Federal Government should implement a policy of radically reduced tariffs and industry assistance based on the intuition of the PC Commissioners.

The PC has presented no evidence in its Position Paper regarding the economic costs of job losses because its economic modelling has a base assumption that ALL displaced TCF workers find other jobs despite much evidence to the contrary.

Similarly, the PC has presented no evidence regarding the economic cost to regional Australia of further job losses. Whilst the paper outlines the modelling done for the PC on regional implications, this modelling is based on no nett job losses in regional Australia ie. if Victoria loses jobs, other states gain. This is not based on reality and therefore should be ignored. Past experience (the best modelling we have to go on) suggests that regional workers displaced by TCF closures find it harder to find new employment especially where TCF assumes a high proportion of the total workforce.

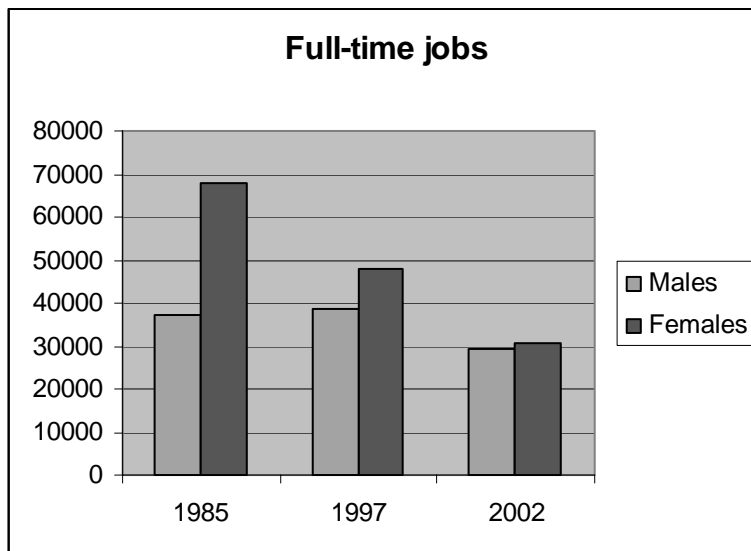
The PC has recommended that the Federal Government consider providing assistance to companies through the Strategic Investment Program Scheme (SIPS) to assist them to move their manufacturing off-shore.⁶ The TCFUA is completely opposed to this suggestion and believes the Federal Government will have difficulty explaining such a policy to Australian taxpayers.

There is no recognition by the PC in their Position Paper that females have borne the brunt of job losses over the past decade. Full-time female employment has suffered the most since tariff rates began reducing in the late-1980s. In 1985

⁵ Ibid. Page XXIX

⁶ Ibid.

there were 67,000 full-time female jobs. This had reduced to 30,000 in 2002. Male full-time jobs over the same period fell from 37,000 to 31,000.⁷ The fact that many of these workers are also older and from a NESB contributes to their difficulty of finding new employment.



Graph 3 shows how females have borne the brunt of full-time job losses in the TCF sector.⁸

The PC Position Paper provides no evidence about non-tariff barriers by our overseas trading partners. They state “Linking Australia’s assistance policies automatically to overseas policies could disregard what is in Australia’s national interest”⁹ This argument requires proof that unilateral tariff reductions are in Australia’s interest and we do not believe this has been proven by the PC.

⁷ ABS. Labour Force Data

⁸ ABS. Labour Force Data.

⁹ Productivity Commission Position Paper. April 2003. Page 79

The PC has presented no evidence on the question of whether consumers will benefit from further tariff reductions. They devote one paragraph to the question¹⁰ and dismiss the argument that there is no evidence of price reductions without having anything factual to support their argument. This is a major flaw in the Position Paper. Given the enormous resources of the PC it raises the question of why they have not investigated this question further. The TCFUA firmly believes there is no evidence that further reductions in tariffs will lead to further reductions in prices for consumers. The PC's stony silence and reluctance to investigate this issue further undermines their credibility on this question.

The PC are happy to tell us without any supporting evidence that tariff reductions are good for the community but some of the specific things (over and above those already mentioned) that need to be considered, which do not form any part of the PC Position Paper are:

- The economic cost of a sacked worker being on unemployment benefits. What does it cost to pay welfare and what revenue is lost through less taxation?
- What spending power is lost to the economy overall by this reduction in income?
- What is the flow-on effect of job losses to other business through both the closures of businesses and the loss of spending power?
- Are there resultant social costs through people spending long periods unemployed? Are these social costs (sickness, depression, alcohol or other drug abuse) calculated as being a real cost to society?
- Is the cost of lost skills ever calculated? If a worker has spent twenty years developing skills and these are no longer utilised is this considered an economic loss?
- When TCF factories close is there a calculation about the loss of business other businesses suffer as a result? Are the flow-on effects calculated for

¹⁰ Productivity Commission Position Paper. April 2003. Page 81.

those companies who no longer supply or service machinery or provide raw materials? Are the effects on their suppliers calculated?

- Is the cost to regional Australia of workers and their families having to move to seek other employment ever calculated?

The issue of government procurement policies that assist local manufacturers provides an opportunity for the TCF sector to maintain a substantial base of local manufacture. There are already strong policies in relation to defence contracts and it is our view that these types of policies need to be actively encouraged by both State and Federal Governments. The PC need to make detailed recommendations for implementation of meaningful procurement policies as part of its final recommendations to the Federal Government.

In its initial submission to the PC the TCFUA commented about upon the level of the Australian dollar in relation to the competitiveness of Australian exports and the relative cheapness of imports.

We said: "The TCFUA has serious concerns that any reduction in tariffs post-2005, combined with a possible revaluation of the Australian dollar will adversely impact on the industry. The dollar has already risen from a low of 47.5 cents to the US dollar to its recent highs of 60 cents. It is yet to be seen what effect this will have on the TCF sector but it can only be assumed that increases in its value will make life harder for local TCF manufacturing companies." ¹¹

At the time of writing this final submission the Australian dollar is currently trading at over 67 cents to the US dollar.

In less than two months it has appreciated in excess of 10%. It is likely to appreciate further. In our initial submission we also said in relation to the dollar:

¹¹ TCFUA submission to PC. April 2003. Page 38.

“Whilst some, including Industry Minister, Ian MacFarlane,¹² have pointed to the fact that fluctuations in the Australian dollar may be greater than levels of tariff protection, the other side of that coin is to look at what the level of import penetration (and reduction in export volumes) may have been if the dollar had remained at a higher level.

The reality of financial deregulation is that governments have effectively withdrawn their ability to control the level of their currency. Whilst Mr MacFarlane is right to point out that the fluctuations are large, the conclusion of such an argument should be that governments should retain control over those policy instruments that remain. A policy to reduce tariffs further will mean the government would have relinquished all the policy instruments at its disposal to protect Australian industry.”

Whilst no one can predict the future level of the Australian dollar it is recognized throughout the industry that the lower dollar has assisted local manufacturers. Some assessment should therefore be made by the PC of the impact on the industry of a higher dollar.

¹² The Australian Financial Review. 10th February 2003.

The TCFUA welcomes the statement that “Given the magnitude of adjustment still required in the TCF sector and the characteristics of the workforce, situations may arise during the tariff transition period where additional targeted support is warranted”¹³ This is a welcome, if overdue contribution to the debate, but it doesn’t go far enough.

It is naïve to think that additional targeted support will not be required, and therefore a TCF specific plan should be put in place to assist those workers who lose their job.

As outlined in the TCFUA submission¹⁴ there a number of options regarding Adjustment Programs – there is the LAP type program that operated in the 1990s and the Bradmill program which formed part of our submission.

The Victorian Government has established a program called the Worker Assistance Program (WAP) which is a useful guide about the type of program that could be developed for the TCF industry.

- WAP has been running from October 2002. Approximately 350 workers have already registered with the scheme. It is expected that 600 will register by the conclusion. Of those already registered approximately 65% have already found employment and the Manager of the Scheme believes that figure will reach 80% by the conclusion of the scheme.
- Prior to WAP (beginning in 2000) a similar scheme (with nearly identical rules) was run. It was called the Forest Industries Structural Adjustment Package (FISAP). It assisted 117 workers of whom 91% obtained full-time employment.

¹³ Productivity Commission Positon Paper. April 2003. Page 96

¹⁴ TCFUA submission to PC. March 2003. Pages 69-77.

- WAP is regionally based, 97% male with nearly all workers having English as their first language. This is obviously different from the bulk of the TCF workforce (although there are similarities to our regional workforce).

Some of the things offered by the WAP scheme are:

- a \$5000 training budget for each individual;
- a complete skills assessment is provided for each individual;
- an employer incentive of \$5000 for those employing participants;
- a top-up of \$150 per week for those participating in an apprenticeship or traineeship;
- the availability of up to \$30,000 for relocation assistance;
- funding to provide a dedicated team to ensure all aspects of the package are accessible to all participants.

There is also a Workers Assistance Program in operation in Queensland and Western Australia. They are not as comprehensive as the Victorian scheme but do at least offer retrenched workers some support.

Utilising the above information and from its own research the TCFUA believes it is incumbent upon the PC Commissioners to provide specific and detailed recommendations in their final report that place the issue of labour adjustment at the forefront of consideration by the Federal Government.

The key point about any labour adjustment program is that it must be designed to meet the particular needs of a specific workforce. The TCF workforce is unique in the Australian workforce. The age, gender, transferable skill levels and the rates of non-English speaking background workers does not resemble any other sector of the Australian workforce. These factors mean that for any labour adjustment

program to meaningfully work, it must be designed to cater for the specific needs of the workforce.

As outlined in our initial submission the TCFUA believes that any successful labour adjustment program must be characterized by the following:

- targeted assistance is far more effective than general assistance;
- it is vital to access workers prior to them leaving the workplace;
- the people delivering the assistance must be known to the workers and be trusted by them;
- the providers of the assistance need to be located near the workplace but not be in the workplace;
- non-English speaking workers are reluctant to approach Centrelink and training providers;
- if workers are not provided with income assistance they are unable to consider re-training options as they are driven by the need for immediate income;
- an integrated advocacy approach is required, in effect a one-stop shop which provides and identifies what workers require and helps them navigate existing services and find out what assistance is available.

As stated the TCFUA welcomes comments in the Position Paper and during the public hearing regarding the need for labour adjustment assistance for displaced TCF workers. It is worth highlighting that the need for assistance is at odds with the thrust of the statistics provided by the Federal Department of Employment and Workplace Relations (DEWR).

The DEWR figures are curious, to say the least. Despite all evidence to the contrary¹⁵ the DEWR statistics suggest that in the three years up to 2001 the rate of re-employment of TCF workers leapfrogged the rate of re-employment of general manufacturing workers. This represents a massive shift from figures derived from unpublished 1997 ABS data. At this time TCF workers lagged the re-employment prospects of general manufacturing workers by over 11%. By 2001 DEWR statistics suggest that TCF workers were re-employed at a rate of over 16% more than general manufacturing workers. The DEWR statistics would be more realistic if TCF employment was booming and displaced workers could find new employment in other TCF companies (where their specific skills are easily transferable). However, this 'result' has occurred at a time when the TCF sector has continued to substantially contract in relation to general manufacturing and therefore the statistics are anomalous.

The DEWR statistics also fails to take into account, for both periods quoted, the fact that many TCF workers will not be listed in official unemployment rates because the high proportion of displaced workers in TCF are female and cannot claim unemployment benefits if their spouse is working. They also fail to take into account the issues raised elsewhere in this submission in relation to the Disability Support Pension, that is, a large proportion of unemployed workers on government welfare are listed in other welfare categories and there has been a disproportionate growth in these categories over recent years. These figures also use official government definitions on 'employment' which are no real indicator of whether a displaced full-time worker has found meaningful employment or as has just managed to obtain a temporary, part-time or casual job when what they were seeking was a permanent full-time position.

DEWR itself states that "Much of the employment loss in the TCF industry in the last fifteen years has been in occupations not requiring formal education. Employment loss in skilled occupations has been slight"¹⁶ This, of course, is the very reason (combined with factors of age, gender and language skills) as to why

¹⁵ See TCFUA submission to PC April 2003.

TCF workers, in all previous studies, have found it more difficult to find work than other displaced workers. It is also the reason why when they do find work that it is often only casual and part-time work.

¹⁶ DEWR submission to the PC. Page 19.

Regional areas need attention

The Productivity Commission terms of reference stated, “Particular attention should be given to the impact of policy options on those regions where TCF accounts for a high level of regional industry concentration.”¹⁷

The PC has not paid particular attention to this question; in fact the Position Paper is basically silent on the issue. The decision to hold public hearings in Geelong was a positive one and the TCFUA hopes that following the gathering of information there, the PC final report will contain some substantive comment and recommendations.

At the Geelong public hearing the issue of the official rate of unemployment, as opposed to the ‘corrected’ rate of unemployment was raised by the TCFUA. The ‘corrected’ rate of unemployment is derived from work undertaken by National Economics¹⁸ and includes people that the government provides social security to, who would otherwise be considered as unemployed. It is derived using Centrelink data. It includes all people receiving Newstart allowance, Mature Age Allowance, excess growth in the Disability Support Pension and the Youth Allowance.

When you include these people it is not surprising that the corrected unemployment rate is higher than the official unemployment rate. This National Economics unemployment rate is really just providing the statistics we used to receive prior to 1991, rather than the “manipulated” figures we now receive.

Using this corrected rate the Australia-wide unemployment rate is actually 9%, not 6%.

¹⁷ TCF Terms of Reference. Peter Costello. 19th November 2002.

This National Economics study sheds light on the issue of why regional workers complain to the TCFUA that jobs are hard to find.

This study also provides a strong argument as to why any TCF decision that impacts on regions will hit those areas already hardest hit. Since 1998, the 20 percent of the Australian population with the highest levels of incomes have claimed over 43% of the increases. This is despite record commodity prices which have benefited many poorer regions.

On numerous occasions during the public hearings Commissioner Robertson commented on the low unemployment rate in many TCF regional areas. Commissioner Robertson is technically correct, but the work of National Economics and the TCFUA's own anecdotal evidence provide a counter argument to this official view.

TCF workers who lose their jobs in regional centres often do not have another TCF factory to move to. Job opportunities are more limited in regional areas because of the population size. Travelling to other areas is often impractical due to the large distances to travel. These and other reasons make the impact of regional unemployment often greater than in metropolitan areas.

The PC needs to recognize the special issues associated with regional TCF workers, and provide appropriate recommendations in light of the evidence that regional unemployment, (as indeed unemployment in metropolitan areas), is higher than the official statistics show.

¹⁸ National Economics. State of the Regions. 2002.

The flawed Outwork analysis

The PC argues¹⁹ that there is a benefit to manufacturers of flexibility through outwork that justifies a deregulated work environment. This claim represents tacit support for the avoidance of payroll tax and the non-payment of workers' compensation and superannuation.

The PC selectively focuses on the minority experience rather than the documented exploitation of the majority experience as highlighted in the TCFUA first submission.²⁰

The comments expose the PC's lack of understanding of the supply chain and structure of the industry.

The PC provides no evidence for its argument that legislating for minority standards limits flexibility and other benefits to firms.²¹

The effect of legislation has been to encourage companies to become signatories to the Code of Practice, not discourage as suggested.

The HomeWorkers Code has been in existence since 1996 – there has been plenty of time for self-regulation.

The PC's final report needs to completely re-examine its comments contained within the Position Paper in relation to Outwork.

¹⁹ Productivity Commission Position Paper. April 2003. Page 126.

²⁰ TCFUA submission to PC. March 2003. Pages 86-100

²¹ Ibid. Page 133.

SIPS

The TCFUA strongly supports the continuation of government direct assistance to the TCF sector.

SIPS has provided necessary and crucial support to the industry during a crucial period of restructuring. It is absolutely vital that SIPS, or a similar program, continues to be provided over the coming years.

Whilst the TCFUA strongly supports the continuation of a SIPS-type program, we believe the Productivity Commission should recommend the following to the Federal Government:

- 1) A direct assistance scheme should be maintained until at least 2015. This should be at current levels of funding, not reduced levels as argued by the PC in its position paper.
- 2) SIPS has major flaws that need to be addressed and a review of SIPS should be undertaken in 2004 so any new program for the post-2005 period can incorporate necessary changes.
- 3) SIPS is an elite program for a small percentage of TCF companies and in no way should be seen as something tariffs can be traded-off against.
- 4) There should be a direct link between direct assistance and employment.

The TCFUA has serious concerns about some comments made in the Position Paper²² – there is a suggestion that SIPS money be used to fund companies to close and move off-shore. Such a suggestion is misguided and not something we believe either side of government would support – it is in fact a complete distortion of the concept of the SIP scheme.

The TCFUA also has serious concerns about the concept of supporting Labour Adjustment out of SIPS.²³ Although some limited funding is available through the current SIPS, any substantial program would place an acceptable conflict in terms of priorities for the program and access to money and should be kept separate.

The PC's preferred option in relation to SIPS,²⁴ which is to reduce funding by half after 2008 and end the scheme completely by 2013, is not supported by any evidence. The PC's own economic modelling shows there will be virtually no welfare gain from such a policy decision, and the evidence presented throughout the public hearings provides further argument for continuation of SIPS at current levels of funding.

²² Ibid. Pages XX and XX1

²³ Ibid. Page 98.

²⁴ Ibid. Page XL1

Entitlements

The recommendation²⁵ to establish an independent review on the question of workers' entitlements is welcomed because it at least recognizes the substantial, unfair and disproportionate burden TCF workers have borne in losing their entitlements in the event of company closures.

But it does not go far enough. Such a recommendation can be seen as the PC 'washing its hands' of the issue of entitlements as far as this review occurs. Whilst it is true that the question of loss of entitlements is a wider problem experienced in all sectors of the Australian economy, there can be no doubt that the TCF sector has seen a consistent pattern of loss of entitlements over a long period.

The TCFUA believes the PC should use its large research capacity to at least provide the Federal Government with some evidence about the scale of the problem in the TCF. It should provide comparisons with other industries and provide analysis as to why the loss of entitlements in the TCF sector is higher than other industries. It should put forward ideas for helping alleviate the problem so the Federal Government can consider them as part of a TCF specific or industry wide review of the problem.

The TCFUA outlined in detail in its submission²⁶ the widespread losses TCF workers have borne by losing entitlements over the past few years and there is no need to go over this again other than to re-iterate that:

- the TCFUA believes it is a disgrace that Federal Governments (Labor and Liberal) instituted policy changes knowing that workers

²⁵ Ibid. Page XXXV1

²⁶ TCFUA submission to PC. March 2003. Pages 49-68

would lose their entitlements and until the National Textiles closure, did nothing about it;

- the current GEERS scheme is inadequate – it is difficult to access, payments are slow in coming and it covers only a small percentage of workers' entitlement;
- the Federal Government promised, prior to the last election, to change Corporations Law to give workers priority in the event of insolvency and to date nothing has occurred.