PRODUCTIVITY COMMISSION INQUIRY
INTO
POST 2005 TCFL INDUSTRIES
ASSISTANCE

AUSTRALIAN WEAVING MILLS
SECOND SUBMISSION

IN RESPONSE TO
THE PRODUCTIVITY COMMISSIONS
POSITION PAPER

JUNE 2003

TCFL INDUSTRY REVIEW

AUSTRALIAN WEAVING MILLS

Introduction

Australian Weaving Mills Pty Ltd (AWM) having studied the Productivity Commissions (PC) position paper, whilst not agreeing with all the conclusions and findings congratulate the Commissioners and their team on what has been a thorough and pragmatic review of the industry.

By way of commentary with respect to the position paper published by the PC in April 2003 as part of its review of TCFL assistance post 2005. AWM makes the following observations: -

Tariffs

a) Product

AWM welcomes the PC's approach of providing certainty with respect to the prospective tariff regime for the post 2005 period.

The company understands the arguments put forward by the PC with respect to the issue of linkage between tariff reductions in Australia and other countries but does not agree with its conclusions. The reality is that the largest developed nations (USA & EU) lag Australia in terms of the openness of their markets because of their continued use of trade remedies and quantitative restrictions on market access. Their stance distorts free trade and unduly penalizes the Australian industry. It remains to be seen whether those countries/regions fulfill their commitments to complete integration within the ATC. Against that background AWM welcomes the PC's recommendations to freeze tariffs at the equivalent 2005 rate through to 2010. The company would then support a further review of tariff arrangements at that time with further reductions to the targeted 5% level being assessed against prevailing conditions rather than a legislated position

Should the PC's final position be to recommend a legislated outcome AWM would support a freeze from 2005 – 2010 followed by a stepwise approach similar to that suggested in options 2 & 3 for the 2010 – 2015 period.

The PC recognizes that the most significant barriers to trade are quantitative restrictions and trade remedies. Thus such a stepwise approach shouldn't greatly inhibit market access but it would allow more natural price adjustment to occur and thus allow such industry as would remain at that time the optimum climate within which to complete the re-adjustment process.

b) <u>Raw Materials</u>

A key point made by the company in its original submission to the PC was to link tariff reductions on finished goods to reductions in intermediate goods and raw materials. The PC has addressed that issue at the broad level but has failed to recognise that ring spun yarn which is a key ingredient of local fabric manufacture will remain dutiable under its recommendations despite the fact that such yarn is no longer produced in Australia. Thus in AWM's case for example the company will have to adjust to a lower tariff with respect to imported towels whilst gaining no relief on the duty payable on imported yarn (approximate penalty cost to the company $0.5 million p.a). This disadvantages local manufacturers whilst failing to protect any domestic yarn manufacturer, as such AWM believe duty free access for such product would be more appropriate.

<u>Positive assistance – Transitional Support</u>

AWM welcomes and supports the PC's findings that cessation of transitional support post 2005 would be counter productive. The company also acknowledges the budgetary constraints referred to and supports the option canvassed in the PC's position paper (viz two, four year periods from 2005 with funding levels set at $560m and $280m respectively).

In its position paper the PC canvasses 3 options under which positive assistance might be provided. Clearly there is no such thing as a perfect scheme.

Value adding bounties have been tried before and it can be argued that to the extent that labour cost is a significant element in the value adding calculation they can be a reward for inefficiency.

Competitive bidding could be time consuming and costly and as the PC points out could lead to a “beauty parade” type outcome.

Despite its shortcomings the SIP scheme has encouraged capital investment & R&D. AWM’s position would therefore be to support its continuance subject to the following considerations: -

i) Simplify the scheme by removing the value adding cap which works against companies which are capital intensive

ii) Adjust the funding support structure to further encourage capital investment particularly in the early stage of the schemes suggested extension (e.g. instead of a rate of 20% for type 1 and 45% for type 2 harmonise the rate at 35%)

iii) Include support for training in new technology and equipment

iv) Structure the timing of payments, particularly in respect to capital expenditure to better match the timing of associated expenditures

v) Encourage supply chain management (warehousing systems, infrastructure etc) which is a huge cost to the industry and an area where competitive advantage can be developed by including funding for that within the scheme

Adjustment out of the sector

In its position paper the PC explores the complexities associated with industry rationalization which will inevitably occur and rightly draws no firm conclusion given the range of issues.

AWM is firmly of the view that support offered under grants types 4 & 5 has proven inadequate in terms of encouraging industry rationalization. That view is borne out by the limited number of successful claims under those parts of the SIP scheme. A major deterrent to the application of these two sections has been that any funding so provided has to come from within a firm’s overall SIP cap.

AWM actively explored acquiring the recently closed Supertex towel business based in Goulburn but because AWM already invests heavily in new capital equipment and R&D there was little available capacity within its SIP cap for funding to be made available. As a consequence the

Supertex business has now moved offshore which is a lost opportunity for the Australian industry.

AWM strongly believes that the future of the industry relies on investment, development and consolidation. Types 1,2 & 3 grants address the first two elements but Types 4 & 5 fail to address the third element. AWM would support a case by case approach to funding industry rationalization with funding coming from within the scheme's budget but not the individual firm's SIP cap. Support should also favour regionally dependent areas where reliance on the industry is greatest and alternative employment opportunities are more limited than is the case in metropolitan areas.