CS/210/003/671.PT2

Date:

Mr David Robertson
Presiding Commissioner TCF Inquiry
Productivity Commission
PO Box 80
Belconnen ACT 2616

REVIEW OF POST-2005 ASSISTANCE ARRANGEMENTS FOR THE TEXTILE, CLOTHING AND FOOTWEAR INDUSTRY: RESPONSE TO POSITION PAPER

Dear Mr Robertson

The Government of South Australia broadly welcomes the Productivity Commission's position paper on the post-2005 assistance arrangements for the textiles, clothing and footwear (TCF) sector.

South Australia is gratified that the preliminary findings of the Commission, as outlined in the position paper, are broadly in accordance with the recommendations in South Australia's initial submission to the review.

In that submission, the Government of South Australia strongly supported continued Commonwealth Government assistance to the sector, but recommended that that assistance better target those elements of the industry that can deliver an ongoing contribution to the national economy. Such continued assistance should encourage increased investment, research and development, exports, and skills development within the sector. South Australia argued that changes to should help ensure that a critical mass remained within the sector to ensure a reliable domestic supply chain – such critical mass is vital for both exports and domestics sales.

South Australia argued the case for continued support most strongly on equity grounds. The costs to workers as further adjustment occurs within the sector are expected to be high – in the face of loss of employment, a significant number of TCF workers are likely to be relegated to long-term or permanent unemployment. For outworkers, the negative impacts are potentially even greater.

The Review of TCF Assistance: Position Paper largely addresses these concerns. In this light, the Government of South Australia welcomes the finding that tariff reductions after 2005 should be made in the context of allowing sufficient time for adjustment. It strongly supports the Commission's finding that an extended period of transitional budgetary assistance is warranted. While the Government agrees that indefinite preferential treatment for the sector is not warranted, it agrees with the Commission that the particular challenges facing the sector justify an extension of assistance in the medium term.

Extended and clear assistance to the sector, as the Commission finds, will provide greater certainty for investment decisions, as well as encouraging innovation and realistic reform within the sector. To this end, the Commonwealth Government must maintain a phased and balanced approach to the reduction of industry assistance for the TCF sector. South Australia maintains that such an approach must:

- promote greater competitiveness, productivity and innovation within the sector;
- adequately address the needs of small and medium-sized enterprises;
- deliver an orderly transition of the TCF industry to a low-tariff regime;
- be contingent on real progress being made in resolving market access difficulties; and
- ensure that TCF employees do not bear a disproportionate share of the structural adjustment costs association with a decline in assistance.

Despite this broad agreement with the Commission's findings, however, South Australia is concerned that a number of issues have not been adequately addressed. The negative impacts on displaced workers and TCF-dependent regions have been acknowledged but no solid recommendations have been made. Assistance arrangements do not adequately cover small to medium enterprises.

Tariffs

The Government of South Australia welcomes the Commission's finding that staged tariff reductions are necessary to allow the TCF sector a smooth transition to a lower assistance regime.

To this end, South Australia recommends that the Commonwealth Government adopt the staged process detailed in option 4 of the Productivity Commission's position paper. Under this option, 2005 tariff levels will be maintained until 2010 and then reduced to and maintained at five per cent until 2015. Tariffs on apparel and certain finished textiles will receive extended assistance, with tariffs for these products reduced to ten per cent in 2010 and then to five per cent in 2015.

Option 4, also the preference of the Productivity Commission, allows for a longer staged reduction period and, as such, will ensure less lumpy adjustment within the sector. By keeping tariff levels for apparel and certain finished textiles at 10 per cent until 2015, option 4 acknowledges that the higher tariff levels for these products require a more graduated reduction to reduce risks of company closure or relocation.

This staged approach will provide certainty for investment and production decisions.

However, tariff reductions should not be unilateral but should be contingent on real progress being made in gaining market access for Australian TCF products in international markets. South Australia remains concerned that the Commission continues to advocate legislated tariff cuts, which do not take account of other international assistance regimes.

High tariffs and significant non-tariff barriers to trade in the TCF sector are common in both developed and developing nations. As Australia has only a small domestic market, and as many Australian TCF commodity producers are relocating to low-wage nations, the sector's future health and growth require access to niche markets overseas. Market access restrictions will severely curtail the future growth and possible viability of the sector.

The Commonwealth Government should review its progress in winning market access gains for Australian TCF products, in particular within the Asia Pacific region, in 2008 and prior to the proposed 2010 tariff reductions. Should significant gains not be made by this time, the 2010 tariff cuts should be delayed until real progress can be demonstrated.

Strategic Investment Program

South Australia welcomes the Commission's finding that additional transitional budgetary funding be provided over the eight years until 2013 as this will assist in an orderly transition of the TCF industry to a lower tariff regime. The Commission's recommendation of an assistance package of $560 million over the four years from 2005/06 to 2008/09 and a further assistance package totalling $280 million over the four years from 2009/10 to 2012/13 is in accordance with the South Australian Government's original submission.

The South Australian Government concurs that this additional transitional budgetary funding be provided through an extension of the TCF Strategic Investment Program (SIP). Neither the current scheme nor the three options for modification and change proposed by the Commission is flawless. South Australia finds advantages in each option, but recommends the adoption of Option A for a number of reasons. As outlined by the Commission, this option will seek to improve the competitiveness of the sector through focussing on investment, R&D/innovation and value-adding while providing support for restructuring in TCF-dependent regions. South Australia supports the extension of this latter support to metropolitan areas based on solid equity principles.

In providing most continuity with the current scheme, Option A will reduce the costs associated with wholesale changes – both to the Commonwealth and to companies. It will allow companies to adapt procedures they are currently familiar with, whereas Options B and C will require companies to learn about new programs and then pay for the development of systems, either internally or by consultants. Option C also imposes high administrative and compliance costs. This would effectively exclude small and medium-sized firms from accessing the scheme.

In going forward, either in Option A or any option accepted by the Commonwealth, early payment of claims is imperative. Binding rules should be considered. Eligibility requirements for the scheme should be broadened to provide accessibility for small and medium-sized firms and for currently ineligible sectors such as wool processing. Reducing the minimum spending threshold should be considered to provide greater SME access to the scheme. The extra demand on SIP funding that could be expected from such a move could be somewhat offset by gains in lower administrative costs.

Adjustment: TCF workers

Adjustment costs on TCF workers have been insufficiently addressed in the position paper. Although the paper recognises that the industry employs many workers who are very vulnerable to long-term or permanent unemployment should they become displaced, it fails to recommend any direct assistance to such potentially displaced workers. Options A, B and C for the SIP scheme do not include support direct to workers.

The South Australian Government considers that the workers in the TCF sector will require significant assistance to enable them to cope with structural adjustment in the industry. Allowing displaced workers to face long-term or permanent unemployment without making strenuous efforts to assist them to gain employment would transgress basic equity principles. The case for extended assistance to the industry is as much one of equity as it is one of competitiveness and productivity.

While South Australia acknowledges the general Commonwealth schemes available to displaced workers, it believes that the particular characteristics of the TCF workforce, as well as the significant adjustment still ahead of the sector, demand a more targeted approach. The Commission itself acknowledges that such assistance may be warranted. South Australia continues to advocate direct forms of support which include skills training, job search training, literacy and numeracy learning, relocation assistance, priority access to databases, and profiling retrenched workers with companies in a recruiting cycle. Funding for direct worker assistance should be in addition to the SIP scheme (or its successor).

However, direct and general schemes will be valuable only insofar as they are accessed by workers. While barriers to access are numerous, lack of knowledge about programs is a critical issue, more so when language and cultural barriers are also evident.

South Australia therefore recommends that the Commonwealth institute a sector-specific communications campaign for workers in the sector which informs workers of programs (general and direct) which would be available to them should they be displaced from their employment. The campaign should be put into place as soon as possible – and should be targeted at workers prior to loss of employment and hence before they become dispersed. The campaign should be delivered to the entire industry and should not discriminate between companies – targeting ‘less viable’ companies only could have severe market repercussions. The cost of a communications campaign is expected to be relatively small but would maximise the value of and accessibility to assistance programs. The campaign could be brought to out-workers in the industry through the joint effort of government, employers, non-government organisations such as the Working Women’s Centre Inc. of South Australia and unions/employee associations.

Adjustment: Regional effects

Further rationalisation in the TCF sector in South Australia would have negative consequences for the State’s lower-skilled workforce in the State’s south-east as well as in northern, north-eastern and western metropolitan Adelaide where TCF activity is concentrated. These Adelaide regions already suffer high levels of unemployment and welfare dependency and any reduction in employment is likely to create considerable further difficulties for these communities.

The adoption of Option A for an extended SIP, as previously discussed, would be of benefit to these regions. It would allow for the continuation of the ‘type 5’ grants in the current SIP scheme that target ancillary activities relating to restructuring initiatives in TCF dependent communities, but broadened to include metropolitan areas affected.

In addition, the South Australian Government recommends that the Commonwealth Government have in place strategies to deal with regional structural adjustment should TCF closures lead to greater hardship and increased unemployment in these regions and communities. Programs should be specific and well-targeted and, where possible, promote alternative employment within regions to allow displaced workers and their families to remain in their communities, should they wish to do so. If alternative employment cannot be established, assistance should be made available for worker re-location.

Recommendations

In summary, the Government of South Australia welcomes in the most part the preliminary findings of the Productivity Commission on the post-2005 assistance arrangements for the TCF sector. However, it remains concerned that issues of equity and adjustment have been insufficiently addressed and that proposed assistance arrangements do not adequately cover small to medium enterprises.

South Australia therefore recommends that following:

Recommendation 1: That the Commonwealth Government maintain a phased and balanced approach to the reduction of industry assistance for the TCF sector. South Australia maintains that such an approach must:

- promote greater competitiveness, productivity and innovation within the sector;
- adequately address the needs of small and medium-sized enterprises;
- deliver an orderly transition of the TCF industry to a low-tariff regime;
- be contingent on real progress being made in resolving market access difficulties; and
- ensure that TCF employees do not bear a disproportionate share of the structural adjustment costs association with a decline in assistance.

Recommendation 2: That the Commonwealth Government introduce a staged reduction of TCF tariffs to allow the TCF sector a smooth transition to a lower assistance regime. South Australia concurs with the Productivity Commission recommendation that the process detailed in option 4 of the position paper be introduced where:

- 2005 tariff levels will be maintained until 2010 and then reduced to and maintained at five per cent until 2015; and
- tariffs on apparel and certain finished textiles will receive extended assistance, with tariffs for these products reduced to ten per cent in 2010 and then to five per cent in 2015.

Recommendation 3: That the Commonwealth Government review its progress in winning market access gains for Australian TCF products, in particular within the Asia Pacific region, in 2008 and prior to the proposed 2010 tariff reductions.

It further recommends that, should the review determine that significant gains have not be made by this time, the 2010 tariff cuts should be delayed until real progress can be demonstrated.

Recommendation 4: That the Commonwealth Government introduce additional transitional budgetary funding over the eight years until 2013. South Australia recommends the adoption of Option A for a number of reasons. As outlined by the Commission, this option will seek to improve the competitiveness of the sector through focussing on investment, R&D/innovation and value-adding while providing support for restructuring in TCF-dependent regions. South Australia supports the extension of this latter support to metropolitan areas based on solid equity principles.

In adopting Option A, modifications should ensure early payment of claims, revised eligibility requirements in order to broaden the scheme's application to small and medium-sized firms and to current ineligible sectors such as wool processing, and a lower minimum spending threshold.

Recommendation 5: Given that further significant adjustment is expected within the sector, it is recommended that assistance programs targeted directly at displaced TCF workers be implemented by the Commonwealth Government. Such programs are clearly justified on equity grounds and should reflect the specific needs of the TCF workforce. Funding for direct worker assistance should be in addition to the SIP scheme (or its successor).

In addition, South Australia recommends that the Commonwealth institute a sector-specific communications campaign for workers in the sector which informs workers of programs (general and direct) which would be available to them should they be displaced from their employment.

Recommendation 6: South Australia recommends that the adoption of Option A for an extended SIP would be of benefit to regions by allowing for the continuation of the 'type 5' grants that target ancillary activities relating to restructuring initiatives in TCF dependent communities.

The Commonwealth Government should put in place strategies to deal with regional structural adjustment should TCF closures lead to greater hardship and increased unemployment in these regions and communities. Programs should be specific and well-targeted and, where possible, promote alternative employment within regions to allow displaced workers and their families to remain in their communities, should they wish to do so.

If you have any queries about the South Australian Government's submission, please contact Jessie Byrne, Manager Economic and Trade Policy, Department for Business, Manufacturing and Trade on (08) 8303 2925 or email: jessie.byrne@state.sa.gov.au.

Yours sincerely

Kevin Foley MP
DEPUTY PREMIER
TREASURER
MINISTER FOR INDUSTRY AND INVESTMENT
MINISTER FOR FEDERAL/STATE RELATIONS