

## Post-2005 TCF Assistance Inquiry

The Commonwealth Government has now referred to the Productivity Commission a reference to look at post-2005 assistance arrangements for the textiles, clothing and footwear industries. As such, the Commission will look at where tariffs go following the end of the five-year 'freeze' on reductions, as well as the success of the Strategic Investment Program (SIP), and whether it should be continued.

The reporting time for the inquiry - given the Xmas/New Year shut-down - is quite tight, with a final report due to be presented to Government by 31 July 2003. TCF Services client managers will shortly be calling to inquire whether individual firms require assistance in developing submissions for presentation to the Commission, including representations to Departmental officers in Canberra in the run-up to a Government decision on the report, which is expected in the September/October 2003 time-frame.

Accepting the outcomes of this new review will have a major impact on the competitive environment faced by all TCF Services clients, those firms with immediate issues requiring discussion should not hesitate to contact me directly. So please ring me, or Email your queries to: [gerry@tcf.net.au](mailto:gerry@tcf.net.au). Also, TCF Services has a new website - [www.tcf.net.au](http://www.tcf.net.au).

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## New landscape for conducting the post-2005 TCF inquiry

The Commonwealth Government has referred to the Productivity Commission (PC) 19 November a reference to undertake an extensive inquiry into post-2005 assistance arrangements for the Textiles, Clothing and Footwear (TCF) industries. The announcement is said to deliver on an election commitment by the Howard Government to have a formal review process determine options for post-2005 assistance arrangements well before expiry of the current post-2000 package.

The new reference has been framed in terms of its subsequent conclusions needing to remain consistent with the Government's commitment towards further lowering TCF tariff rates in the years after 2005, as well as honouring national commitments and obligations made under umbrella declarations such as the Asia Pacific Economic Cooperation (APEC) forum, and the World Trade Organisation (WTO).

Requests for increasing tariffs and the re-introduction of import quotas are not, therefore, on the Commission's agenda, given it has been directed to identify post-2005 policy options that remain consistent with Australia's trade obligations (ie: all directed at trade liberalisation), whilst at the same time continuing to encourage the sector to adjust to a viable and sustainable competitive position.

## Who's who in the Productivity Commission zoo

Issued under the joint authority of Treasurer Costello and Industry Minister Macfarlane, the Government has nominated Philip Weickhardt (most recently working on the Automotive Industry review) as an Associate Commissioner to the new TCF inquiry. As a former captain of industry (ie: head of Orica), Weickhardt is

expected to bring a more pragmatic approach to the framing of post-2005 TCF assistance options in a manner that is reflective of his extensive understanding of Australian business, and the manufacturing sector in particular.

Weickhardt will join full-time PC Commissioner, David Robertson (the Presiding Commissioner), with both individuals being supported by an inquiry team located in the Commission's Canberra Office, and lead by Ian Gibbs (a PC Assistant Commissioner).

Given the short time allocated for the inquiry, preparation of the usual full Draft Report is to be replaced by the circulation of a 'Position Paper' in early April 2003. The paper is to be prepared on the basis of the Commission's reading/analysis of the first round of written submissions, which themselves are due to be lodged with the Commission by 21 February 2003.

Production of the Position Paper in April marks a high point in the life-cycle of the TCF inquiry, as it will see the Commission floating its initial findings on the effectiveness of the current assistance arrangements (including the SIP Scheme) in meeting the Government's stated TCF industry goals (or 'intent'), as well as canvassing post-2005 assistance options.

Once the position paper has had time to thoroughly circulate within the combined TCF and related industries, the Commission will bring on a round of Public Hearings (expected over May 2003), to test its proposals against those individuals and organisations willing to stand-up in front of the two Commissioners, and argue their case. Following the conclusion of the hearings, the Commission will switch to the job of completing the Final Report by 31 July 2003.

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## What is the Government's 'intent' for the TCF industries?

**D**eveloping a clear understanding of the Government's 'intent' for the TCF industries will be critical to the Productivity Commission providing a robust set of post-2005 assistance recommendations. This is not as easy as it sounds, as up until September 2002 the picture remained somewhat foggy.

An internal Industry Department Working Group looking at the effectiveness of the SIP found there was considerable misunderstanding of this concept within industry, and concluded there was a need for "better articulation of the Scheme's intent through guidelines, policy statements and other explanatory material."

For the record, the Working Group's report stated that - by providing financial incentives for investment in new plant and equipment, and R&D/product development - the SIP Scheme was designed "to introduce a new level of sophistication into the Australian TCF industry which (would) enable it to compete post-2005."

It added, the Scheme was designed to 'modernise' the industries "by rewarding high performing firms which are prepared to invest and innovate. As such, it was not the intent of the Scheme to simply assist firms to maintain the status quo or 'keep up with others in the TCF industry,' but rather to excel and become 'leaders' of the TCF industry."

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## Achieving cultural shifts inside TCF management

**S**eeking to provide further expression of such 'intent', the Working Group referred to the Explanatory Memorandum which accompanied the SIP Bill when the program was first introduced (1999) to Parliament for consideration by legislators. This document stated, the Scheme was aimed at "providing an investment incentive to leverage a cultural change towards international competitiveness and global integration of the Australian TCF industries."

Taking this line, the Working Group then concluded the SIP Scheme (in terms of the achievement of Government intent), "is attempting to influence a major cultural shift within an historically conservative industry that has been protected for a considerable length of time by tariff barriers, and which has already received substantial direct assistance through other Government grants."

The Working Group further observed that in drafting the TCF (SIP) Scheme, "the Department wished to ensure that the eligibility of activities adequately reflected the aim of the

Scheme to promote investment and innovation to better position the TCF industries to be sustainable and internationally competitive post-2005." As such, it found the Department "did not include routine activities that would normally be found in a TCF firm (as) this would reward doing 'more of the same', rather than leading to support for activities which stimulated innovation and provided impetus for change."

The then Minister (Moore) was said by the Working Group to have endorsed the view that the SIP Scheme should not support 'routine' activities, as it would "take the focus away from the strategic aim of the Program." As part of this, the Minister is further said to have "accepted that this might have implications for apparel and footwear firms."

## Tariff options a more simple affair - maybe?

Under the general programs of phased tariff reductions introduced in May 1988 and March 1991, most Australian tariff rates were reduced to 5% or less by July 1996. The only remaining general tariffs of more than 5% post-2000 were in the Automotive (Passenger Motor Vehicle) and TCF sectors, with the exception of five tariff sub-headings relating to cheese.

Whilst the level of tariff assistance afforded to the TCF sector declined significantly during the 1990s, the Government decided to put further tariff reductions 'on hold' between 2000 and 2004, although legislation was subsequently passed for a substantive reduction on 1 January 2005.

On this date, tariff rates will automatically fall from 25% to 17.5% on clothing and finished textiles; from 15% to 10% on footwear and fabrics; and from 10% to 7.5% on sleeping bags and table linen. Items within the TCF sector currently dutiable at general rates of 5% will continue at that rate, except those applying to goods originating from the world's 50 most least developed countries (including East Timor), which will all become duty 'free' from 1 July 2003.

## Short-term tariff options, but it's zero in the long run

The Government has a range of options for dealing with residual TCF tariffs in the period after 2005. Generally it has indicated they should be phased down to 'minimum' rates (ie: 5% or less) by 2010, consistent with the 1996 APEC 'Bogor' accords.

Such accords assumed TCF tariffs amongst our APEC neighbours would begin to be similarly reduced over this period of time, with the intention they would be completely abolished by 2020. For a number of reasons, it is open to debate whether this has actually occurred to the same degree as Australia may have first anticipated.

Walking away from the 'Bogor' undertakings is therefore feasible for the Government, but only if undertaken within the context of an Australian commitment to the more recent 'Doha' trade liberalisation objectives, which under the authority of the WTO seek global agreement to additional multi-lateral reductions in tariffs by all member nations.

Of perhaps critical influence in setting the actual phase-down rates (and their subsequent timings) is a recent United States initiative, which has proposed a two-stage tariff reduction program beginning with the abolition of all tariffs at or below 5% by 2010, as well as the reduction of all other tariffs to 8%. Under a second round of reductions, all remaining tariffs would then be reduced to zero by 2015.

## Free trade agreements also reducing tariff assistance

One further element affecting the tariff equation is the Australian Government's current program to accelerate bilateral Free Trade Agreements (FTAs) which - one by one - is chipping away at the integrity of the TCF tariff protection regime originally put into place in the 1970s.

Under these agreements - first with New Zealand, then SPARTECA and more latterly with Singapore - tariffs applying to TCF goods are effectively eliminated as long as the goods remain compliant with agreed 'rules of origin'. The Australian Government currently expects to have negotiated FTA's with both Thailand and the United States by 2004.

## Remainder of the PC's TCF Reference

Outside of the substantive Tariff (including By-law/EOAPs) and SIP issues, the post-2005 inquiry Terms of Reference require the Commission to identify and analyse major impediments to the long term viability of the TCF sector.

These include factors such as cost structures, market and firm characteristics (such as import competition, corporate structure, the existence of critical mass, management and workforce skills, the purchasing strategies of major retailers, the ability of the sector to attract investment), and international trading arrangements including market access issues.

The Commission is also required to identify major opportunities for the sector and its strengths and weaknesses for securing these opportunities. Out of these opportunities, it has been directed to identify policy options, including tariff options, consistent with the Government's international obligations, such as those under WTO and APEC, which would encourage the sector to adjust to a more viable and sustainable competitive position.

The Commission is further required to analyse the short and long term implications of each policy option for the structure, performance and competitiveness of the sector, investment, employment, consumers, resource allocation, flow on effects for other industries, general growth prospects and appropriate role for government. In this task, particular attention is to be given to assessing the impact of policy options on those regions where TCF accounts for a high level of regional industry concentration.

Also on the Commission's task list is the examination of relevant workplace issues including the more effective use of flexible modes of employment, labour mobility in and out of the sector, especially in regional Australia, and the scope for innovative workplace reform including policy options to improve the competitiveness of the sector. First round submissions are due in to the Commission by 21 February 2003.

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The Textiles, Clothing & Footwear Industry Advisor (C) 2002 [Co-Operative Ventures (Australia) Pty Ltd] brings you the latest facts, analysis and contacts regarding Australia's TCF industries and related Government assistance and support programs.

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