

The new business environment in 2002

As we respectively shut the doors on 2001 and head off for a well earned Xmas break, it is pertinent to review the year that was 2001, and pose the question of how much things have really changed, and how much they haven't. Certainly, the world did change on 11 September, but as the shock of those initial images from New York and Washington have worn off, Australian's have shifted their focus back to domestic problems, happy to watch the big picture unfold each night on the world TV news.

The Federal election on 10 November has given us a new Minister for Industry, Queensland farmer, the Hon Ian Macfarlane. We also have a new Secretary of the now renamed Department of Industry, Tourism and Resources (DITR), Mark Patterson, previously Chief Executive of the Australian Chamber of Commerce and Industry. So with a farmer as Minister for Industry, and a business lobbyist as head of the Department of Industry, I would expect 2002 to be a year of substantial interest for us all!

This issue of the 'Advisor' takes an opportunity to review some of the substantive issues that unfolded over the last quarter of 2001. In the review of trade and industry policy, we also identify some key issues TCF Services intends to pick-up in the new year on behalf of our clients, as sittings of the new Parliamentary get underway on 12 February. In the meantime, TCF Services and its Staff wish all our clients and readers a happy and safe Xmas, and may the new year bring a more stable and prosperous business environment.

Gerry Frittmann
Managing Director
TCF Services Pty Ltd

Fixing up Industry Policy

One of the most important tasks for the Howard Government's third term is to undertake a hard-headed assessment of where Australia's economic policy has taken it over the past two decades.

Senator Minchin's closing days as Minister for Industry saw a rash of sudden closures of TCF facilities around Australia, which ended up motivating a series of hurried changes to the provisions of the TCF Strategic Investment Program (SIP) Scheme to allow for early payments of benefits in order to prevent the wholesale routing of some key elements of the industry.

But the question must be asked - is this activity all too late? Is the Government simply throwing good money after bad whilst conservative administration of the Scheme in Type 2 investment holds back the very areas of future productive activity that might offer the industry - albeit one re-focused on advanced technology industrial products - the best chance of long-term survival?

Whilst there is no chance of a return to the days of high tariff protection, overviewing the various TCF 'Plans' of recent years, one would have to observe successive governments have been less than successful in their policies for manufacturing industry, particularly those focused on lifting the percentage of total exports attributed to high-value, technologically-intensive manufactures.

Helping industry to grow

Caught up in the debate between 'old' and 'new' economy status, the most striking feature of the Australian economy since 1998 has been the chronic weakness of the Australian dollar. Exports of the so-called 'old' economy, such as rural products and minerals, are doing well because of the low dollar, while exports from the 'new' economy, such as technical textiles and performance-based consumer products continue to suffer from increased costs for vital inputs such as computer driven plant and sophisticated warehousing and distribution facilities.

The hard facts are that since Australia first embraced the policies of economic rationalism - beginning with Gough Whitlam's unilateral 25% across-the-board cut in tariff rates in 1974 - Australia's relative OECD position as a successful economy has deteriorated. Structural adjustment policy alone is not working. There is a need to be more positive, and minds need to be more open to new ways of doing things, especially in the area of wealth creation.

Elaborately transformed textiles

One of the most obvious targets for increased wealth creation is to give greater attention to higher value exports. This points to the necessity to put greater emphasis on developing what statisticians call elaborately transformed manufactures (ETMs) - where world competitive products emerge from not only the combination of physical resource inputs, but also, a serious injection of intellectual property in the form of technology and knowhow.

The definition of knowhow spans a broad range of categories, but usually is reflective of knowing what to make for which customers (market research), packaging your products in an attractive manner (design), and producing them in a manner that engenders an appropriate level of quality and best manufacturing practices (process improvement). Readers will immediately recognise the words in parentheses as the key areas of Type 2 investment for the purposes of the TCF-SIP Scheme. There is a view amongst some clients that in administering the first round of claims under the SIP, the significance of such expenditures has not been fully grasped in terms of the role they play in helping the cause of ETMs to advance TCF industry structural adjustment, as well as overall wealth creation in the Australian economy.

Dollar dazzles the long term outcome

Despite the low Australian dollar making exports easier and imports dearer, ABS statistics show Australia has gone backwards in this area in the past three years. In 1997/98 our net deficit (imports over exports) of ETMs was \$48 billion against \$61.7 billion in 2000/01. One of the major advantages of shifting the priority to high value exports of manufactures is that this is the area, unlike agriculture, where the World Trade Organisation has had the greatest success in reducing trade barriers. The new round of trade reform coming out of the Doha meeting offers considerable potential for ETM exports, however - and unfortunately as a result of the influence of the National Party and its grasp on the Trade Portfolio - Australia's approach has been to give excessive weight to the aim of reducing agricultural protectionism.

This is not to suggest Australia ceases striving for this ideal, but the reality should be faced. The WTO meeting at Doha may have come up with a formula that will keep the talking going about reducing agricultural protectionism, but that is all it has achieved. The European Union has made it clear it has no intention of agreeing to reducing agricultural export subsidies. The United States has also shown its true colours this last week with its proposal to double agricultural subsidy arrangements to soften up regional voters as a precursor to the upcoming Congressional elections. Senior bureaucrats in Canberra now believe it will be a decade before significant progress is made in agricultural trade reform.

Back to ETMs and TCF

In the next 5-15 years - as Australia's population ages - and as the current 'youth' bubble in our Southeast Asian economic neighbours also matures, there will be a significant increase in the consumption of technical textiles as a percentage of total textile market demand. The range of products servicing this growth will be wide - from health and medical applications (using non-woven, metallised and composite fibres), to a myriad of sports and leisure applications, as well as the wide range of specialised household, industrial and environmental applications.

Many TCF Services clients are aware of the potential of such markets, and the opportunity they provide for transiting out of more traditional TCF activities towards what are considered

more long term sustainable market positions. Most are, however, cautious about future investments as they seek to judge the attitude of Government towards assisting new areas of end-product growth. AusIndustry's interpretations of the legislative provisions of the SIP Scheme are also seen as providing opportunities for such endeavours to be more rapidly advanced.

The nub of the problem comes back to having a pro-active approach to industry policy. When all parties acknowledge the driver is research and development, firms should be encouraged to take an open view. The adoption of any input or output that advances a traditional TCF manufacturer's ability to move up the ETM ladder should be encouraged, for at the end of the day this will produce the desired result in terms of the Government's structural adjustment objectives for these industries as a whole. In the first round of SIP claim adjudications, many of these firms have nevertheless been disappointed. Some have given up when faced with the power of the bureaucracy to leverage a less than optimal result. Others, more determined in their interpretation of the SIP Act and Scheme provisions, are heading off to the Administrative Appeal Tribunal (AAT) and higher courts in 2002 to test the Agency's resolve when its decisions and internal approaches are thrown open to a wider community for evaluation.

Attack on the EMDG Scheme

The difficulties firms see with Government attitudes towards industry assistance programs that have the potential to substantively motivate the growth of ETMs has also been recently demonstrated through a Productivity Commission staff research paper analysing the 'Use and Impact of Government Business Programs', in particular, the Export Market Development Grants (EMDG) Scheme. Whilst acknowledging that participation in the EMDG Scheme and Research & Development programs appeared "to have significant effects on the exports and R&D of recipient firms", the study considered the true impact of program participation to have been 'overestimated' because "firms with stronger export or R&D growth prospects are more likely to choose to participate in these programs."

Leaving aside the merits of AusTrade and the EMDG, publication of the Staff Paper represents a 'throwing of the first stone' against a range of industry programs which in each of their various ways all have an impact on the willingness of industry to invest hard dollars in the growth of ETMs. As part of this 'stoneing', little is being said on new programs. If, as now appears evident, sponsoring Departments are willing to leave it to the Productivity Commission and similar bureaux to progressively crucify key assistance Schemes one by one, it will not be long - amidst allegations of over-bureaucracy in program management, paperwork compliance costs and a lack of knowledge about programs - that the SIP itself will come up for critical review, and most likely by an agency outside the DITR/AusIndustry comfort zone.

New Cabinet Committee framework

Last week in Canberra Prime Minister Howard nominated Messrs Anderson, Costello, Hill, Abbot and Nelson as the team to run a new 'Policy and Priorities' Committee of Cabinet. The group is to assist the Government to develop a more substantive strategic direction in overall policy development processes, and ensure the bringing to bear of a strong forward agenda reflective of the Howard Government's values and the long-term needs of Australia.

With anti-industry assistance forces already having fired the first shot against AusTrade and the EMDG, those interested in advancing the cause of ETMs and more knowledge-based manufacturing in Australia might keep these names in mind. They will inevitably become useful contacts in the battle set to break-out over 2002 as minds focus on working up assistance program proposals (if any) that might make their way into the Howard Government's third-term agenda, and in advance of the pending review over 2003/04 to determine the post-2005 TCF assistance framework.

Disclaimer - Before relying on the information contained in this newsletter, users should independently verify its currency, completeness and relevance for their purposes, and should obtain any proper professional advice. In particular, users should seek more detailed independent professional advice before making any investment or business decisions.

The Textiles, Clothing & Footwear Industry Advisor (C) 2001 [Co-Operative Ventures (Australia) Pty Ltd] brings you the latest facts, analysis and contacts regarding Australia's TCF industries and related Government support programs.

The Newsletter is published on a regular basis for **TCF SERVICES PTY LTD** [ABN 88 053 245 926], PO Box 141, Surry Hills NSW 2010. Tel: +61 2 9310-2900/Fax: +61 2 9319-3670. Correspondence should be addressed to the Editor.

Reproduction in whole or in part is not permitted without permission in writing from the publishers.