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Macfarlane back to work on post-2005 TCF

The Productivity Commission has now completed its review of TCF assistance, and has forwarded its final report and recommendations on post-2005 arrangements to the Government. Compared to September of 1997 - when the post-2000 assistance package was announced by the Prime Minister within a day of the Government's receipt of the Commission's final report - the mood in Canberra in 2003 is very much different.

As we outline below, the Government is likely to take its time in studying the Commission's analysis, whilst undertaking extensive private consultations with industry to nail down exactly what benefits will come from ongoing support for the TCF sectors. Some further external studies might also be commissioned in these areas, leading up to a formal announcement of post-2005 assistance arrangements towards the end of November.

There are a number of reasons for the change in treatment of the Commission's report this time around which, cumulatively, may impact quite significantly on the form of decision the Government takes on the combined industries' future.

If you have any queries about issues raised in this newsletter, please don't hesitate to ring me, or Email your queries to: gerry@tcf.net.au.

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Federal Parliament returned to Canberra from its Winter break at the start of the second week in August, with one important ingredient missing. That was the Hon Ian Macfarlane, MP, the Minister for Industry, Tourism and Resources (DITR). Macfarlane has principal responsibility for the development of post-2005 assistance arrangements for the TCF industries, as well as carriage of those arrangements through Federal Cabinet for endorsement by the Government as a whole.

Macfarlane was absent from Canberra due to an extended illness, which was first officially notified by Prime Minister Howard on 29 May. According to Howard, Macfarlane was to take leave "immediately, and for the duration of treatment - expected to be six to eight weeks."

The processes of Government

Whilst Macfarlane has been away from work, the Productivity Commission continued with its review of TCF assistance in the aftermath of its publication on 16 April of its Position Paper on the industries' current assistance arrangements. Given the compressed time period allowed for this inquiry by the Government, the Position Paper was effectively a draft Report *(refer last TCF Advisor - Vol.13, No.2 - 27 May 2003)*.

In short, the Commission indicated a preference to maintain all TCF tariffs at 2005 levels until 2010, followed by a single step reduction to five per cent in 2015, except for tariffs on apparel and certain finished textiles, which would fall to 10 per cent in 2010, and then to five per cent in 2015. In regards to the Strategic Investment Program (SIP), the Commission indicated a preference to extend the Scheme for a further eight years - in two four-year tranches: the first tranche funded at the current annual level of the SIP ($140m a year); and the second at half that amount.

The Commission also proposed modest refinements to the SIP, including clarification of the definition of innovation, reducing administrative/compliance costs, and reducing the current $200,000 turnover eligibility threshold to allow smaller firms quicker access to Scheme benefits. One further option involved changing the SIP from an entitlement, to a competitive access basis.

Public hearings on draft position paper

Hearings were subsequently held in Melbourne, Geelong and Sydney whereupon Commissioner's received a hail of protest in regards to their preferred position on further tariff reductions. Most hearing participants called for either no further tariff cuts post-2005, or minimal cuts - and timed in response to tariff reductions actually implemented by major trading partners.

Whilst welcoming the Commission's support for extension of the SIP, the large majority of hearing participants questioned the choice of eight years for a follow-on program. They submitted instead, that this should be ten years - which would have the effect of increasing total program costs from the $840m estimated by the Commission, to $1.4 billion. Support for Scheme modifications was mixed, with the large majority preferring retention of the SIP as an entitlement program.

As per the initial TCF inquiry schedule, the Productivity Commission completed its final Review of TCF Assistance Report in early August, with the substantive document having since been submitted to the Treasurer, Peter Costello, for subsequent wider consideration within the Government.

Macfarlane has also since returned to work, and now has before him the task of brokering a post-2005 TCF assistance package that will keep industry and trade unions happy, whilst ensuring that whatever package is finally agreed upon, remains consistent with the economic and philosophical bounds marked out by the Commission in its final report.

Santa Claus and Commission politics

Similar to its approach last August in regards to Automotive Industry assistance options, the Commission sustained in its April 2003 TCF Position Paper both orthodoxy - in terms of its call for continuing tariff cuts - and generosity, in terms of the high value ($140m) put on annual funding for the post-2005 SIP years. Actual SIP outgoings being funded under the current SIP are estimated to be coming in at around $100m a year.

Such generosity is understood to have unsettled Government, as it has raised expectations within industry for a medium-term extension of the SIP 'status quo', when what is apparently on the medium-term agenda is the opposite. Reportedly on Macfarlane's mind, is some further reduction in annual SIP funding post-2005, to be achieved by tightening-up eligibility in order to target assistance either: on firms most likely to be affected by continuing tariff reductions (eg: clothing), or undertaking real innovation in the restructuring of their organisations to achieve a position of longer-term sustainable competitive advantage (eg: technical textiles).

Quantification of the phrase 'achieve a position of longer-term sustainable competitive advantage' has traditionally been interpreted as, local firms being able to compete successfully against imports from any source in the world with no more than a 5% (maximum) tariff. This end-state is what has been recommended by the Commission to for the TCF industries by 2015.

Contemplating the 'lose-lose' scenario

Having displayed such generosity for continuation SIP funding post-2005 along the lines of the current (2000-2005) Scheme funding caps, the Commission has actually achieved a major win within the TCF market place, in terms of perceptions of its 'reasonableness'. Whilst those familiar with the Commission and its forebears (Industry Commission, IAC, Tariff Board) generally anticipate a hard line on tariff cuts in each subsequent inquiry, the approach to SIP laid out in the Position Paper was, actually, quite reasonable - if not down right generous.

Industry Associations and lead Trade Union spokespersons, of course, failed to take up the lead provided by the Commission, and have since engaged in some orthodoxy of their own. During TCF draft report hearings, an ambit claim emerged for an even greater SIP funding commitment (the $1.4b), along with the ruling out of any further tariff cuts - other than those forced upon us through agreements with trading partners, including via Free Trade Agreements. In taking this approach, such groups have broken a cardinal rule of successfully lobbying - give Ministers options they can practically accept), and let Government take the kudos for policy innovation themselves.

During the course of the Commission's post-Position Paper hearings, it also became quite clear the two Commissioners - David Robertson and Philip Weickhardt - were at one in terms of their recommendations for tariff reductions. Whilst taking the inevitable criticism 'on-the-chin', it was clear from the body language both Commission really did believe they had made quite a reasonable fist of getting around key TCF industry issues. As a result, they embraced the SIP, recommended to extend it, and endorsed the uptake of some sensible post-2005 modifications - the majority of which will rectify SIP roll-out deficiencies encountered in the first few years of Scheme operation.

One further difference from 1997, is that this time around there is no third Commissioner. Those with long memories will remember that for the post-2000 decision, it was not so much the substance of the Commission's report that convinced the Government to back the SIP Scheme, but representations from none other than Philip Brass. True to form, it was Brass - via a controversial 'dissenting' opinion from his two co-commissioners - which argued forcefully that industry was capable of securing an acceptable return on new project investments, within a five-year Scheme.

The search for a policy 'Ace'

So with industry associations out there on the far right, and the Commission sitting pretty well in the middle, it will be Senator Macfarlane who now has to take-up a position on the left - seeking to advance further TCF tariff cuts, focus the SIP on those hardest hit by such tariff cuts, whilst also bringing overall program costs back under control (eg: around $75m a year in funding - almost half that recommended by the Commission). After 2005, Macfarlane is likely to seek such savings by targeting grant eligibility on those most aggressively taking up the mantra of 'innovation'.

For the Government, this is a 'lose-lose' situation. If Macfarlane wishes to embrace the Commission's tariff cut recommendations, he will be criticised by all and sundry. At the same time, and even if Macfarlane takes-on industry's request for a ten-year extension of the Scheme, action to reign-in SIP funding costs by targeting/focusing eligibility - ostensibly on items that are in industry's long-term interests - will still end up attracting criticism from most within industry, employer organisations and employee representatives.

Finding a way out of this quandry is going to be difficult. As the Commission has clearly stated, despite pouring another $840m to $1.4b into the TCF industries over the next eight to ten years, what will be left on the ground by 2015 will be three sectors mostly a shadow of their former selves. Those elements more focused on traditional activities will have re-structured and shed most of their employees, whilst the most innovative elements will have also re-structured - recruiting only limited numbers of higher-value employees as they 'gross-up' on investments in plant and machinery, and technical 'knowledge'.

Scissors, cloth and 'clag'

Over the ensuing decade, such a scenario will see the TCF industries - particularly fashion - losing their 'clag'. In other words, that element which most holds them together. With the majority of clothing being manufactured offshore, traditional links with local fashion textile manufacturers will become stressed. If these latter firms are to survive, they will need to re-position around knowledge-based activity, to rapidly bring forward new products that have embedded in them high performance qualities.

That all means a shift in focus to new customers, exports and participation in global production/ distribution networks. As was observed by the Commission, it is these elements of the combined industries that - if identified early and assisted to grow under post-2005 arrangements - offer Macfarlane some salvation in the task of putting up to Cabinet a revitalised assistance program that offers tangible (and measurable) long-term national economic and social benefits.

Whilst each TCF sector will have its own special macro requirements, it must also be recognised that firms within each sector have additional, and fundamentally different, micro requirements that must find their way into post-2005 assistance policy settings. Such differences are driven by firm size: large, medium and small; capital intensity versus labour/knowledge intensity; and building 'critical mass' - including the competencies of individual firm managements.

Relying only upon the Commission's final report, Macfarlane will be challenged in the critical task of identifying such needs, and developing effective post-2005 policy responses to address them. It is therefore likely, the Minister (or DITR) will need to commission further external research to help put 'meat on the bones' of any decision to move away from the 'one size fits all' approach for the next round of TCF assistance programs.

If the Minister, and through him the Government, are going to produce that all important TCF policy 'Ace' - one that will ultimately win favour across the TCF industries (even if such favour comes in different forms, from different quarters), it will all come down to a willingness by Government to embrace innovation in the design of assistance programs. Such innovation would acknowledge market place reality by moving to address - through individual sub-programs - the particular requirements of each of the textiles, clothing, footwear and leather elements.

Should this construct come to pass, it will represent a welcome shift away from the 30-year paradigm of Government promulgating omnibus programs every five years, that have so far been unable to produce what everybody seems to want - a buoyant and prosperous Australian TCF industry, leading the world in many quarters in terms of innovative products and services, and capable of building longer-term sustainability to the point where it is increasingly less reliant upon Government support for its survivability.

The Opposition's observations

During Macfarlane's absence, the Shadow Minister for Innovation, Industry and Trade, Craig Emerson, also took some time off to study the detail of the Productivity Commission's Position Paper, and released a summary document on 4 June noting Labor saw, "a positive future for Australia's high-value textile, clothing and footwear industries, and will back them with a positive industry plan."

Interestingly, the document acknowledged the future of the TCF industries 'is in encouraging innovation and skills development, not competing against Asia on wages'. To this end, Labor advocated a re-orientation of the TCF Strategic Investment Program "towards innovation, and a separate Labour Adjustment Program to offer enhanced training to employed TCF workers and to any who lose employment."

In its reading of the Position Paper, Labor also considered the Productivity Commission had "failed to make the case for further tariff cuts, with its own modelling showing any economy-wide effects would be 'very small'." The document further affirmed likely adherence to a commitment of Labor's 2000 National Conference, requiring "a proper review of the social impacts of any future tariff cuts before they take place."

On top of these base commitments, Labor also undertook to: vigorously pursue improved market access for Australian TCF exports; provide smaller firms with access to the SIP; support the 'Homeworkers Code of Practice' - but also introduce "Federal legislation complementing State legislation ensuring outworkers are employed under secure, safe and fair systems of work"; and push for the establishment of a nationally consistent Commonwealth, State and local government procurement policy.

Finally, Labor committed to establishing "a national employee entitlement scheme based on the principle that employees should receive 100 per cent of entitlements, including superannuation entitlements, due to them." Although the acknowledged privilege of political opposition, Labor's response to the Productivity Commission's preferred recommendations illustrate the Party has not lost the knack of crafting a 'win-win' solution.

The ball is now firmly in Macfarlane's court.

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