Textiles, Clothing and Footwear Development Authority Bill 1988

Date Introduced: 25 February 1988
House: Senate
Presented by: Senator The Hon Peter Cook, Minister for Resources

Digest of Bill

Purpose
To establish the Textiles Clothing and Footwear (TCF) Development Authority that will develop, implement and administer the operation of the 1989 – 1996 TCF Plan.

Background
The Textiles, Clothing and Footwear (TCF) industries form a significant part of Australian manufacturing sector. In 1984 – 85, they contributed some $2685 million to value added which represented 7 per cent of total manufacturing value added (ABS 8215).

Of total TCF value added, 39 per cent was attributable to the clothing sector, 38 per cent to the textiles sector, 11 per cent to footwear and 12 per cent to knitting mills.

Turnover, in 1984 – 85 of $6239.4 million in the combined TCF sector accounted for 6.4 per cent of total manufacturing turnover. During the year fixed capital expenditure less disposals increased significantly to $164.7 million but this still represented only 5.3 per cent of total manufacturing fixed capital expenditure.

In general, the contribution of TCF to total manufacturing has shown a secular downward tendency, as in other developed nations. Prices have increased at a rate less than the CPI, investment has been sluggish and well below average manufacturing levels, employment has appeared to decline and output has lagged behind the rest of the manufacturing sector.

However, generalising about an industry sector that encompassed 2667 establishments in 1984 – 85 provides a broad brush picture that may obscure significant changes occurring at a more disaggregated level.

TCF is generally regarded as labour intensive. Women make up a high proportion (65 per cent in 1984 – 85) of the people employed in TCF industries compared with manufacturing as a whole (26 per cent in 1984 – 85). There is also a higher proportion of migrants in the TCF workforce than in manufacturing as a whole. In 1984 – 85 an average of
108,000 people were employed in TCF, 9.7 per cent of total manufacturing employment. The available statistics on TCF employment trends need to be interpreted with caution. The practice of contracting work out to self-employed persons is widespread in clothing, but outworkers do not feature in the ABS statistics.

Australian manufacturers of TCF products have successfully exported a narrow range of products such as woollen tops and tanned leather, but for most TCF products, Australia's penetration of world markets has been very low. Since the 1985 devaluation which improved substantially the international competitiveness of the TCF sector, exports have risen albeit from a low base and there has been a degree of import substitution.

Evolution of Assistance to TCF industries

The structure of assistance currently provided to TCF industries reflects 'temporary' responses to a significant increase in the level of imports following the appreciation of the Australian and the 25 per cent across the board tariff cut of 1973.

The share of imports competing on the domestic market for the manufacturing sector increased by 2.7 percentage points from 1968-69 to 1974-75. Much of this increase was concentrated in the markets of TCF industries. Over the period 1968-69 to 1974-75 the import shares of the domestic markets of these industries increased by 3.7 percentage points for Textiles (16.8 to 20.5 per cent); 14.7 percentage points for clothing (6.1 to 20.8 per cent) and 15.4 percentage points for footwear (8.2 to 23.6 per cent).

The Government implemented import quotas for TCF and motor vehicle industries which had lost a significant share of the domestic market.

Quota assistance lead to rapidly increasing assistance from 1974-75 to 1981-82.

Prior to the introduction of quotas, TCF already received relatively high levels of assistance, mainly from tariffs. The tariff rate applying to many of the TCF goods subsequently protected by quotas were amongst the highest in the tariff schedule. The Industries Assistance Commission (IAC) estimated the effective rate of assistance for clothing and footwear to be in excess of twice the average for the manufacturing sector.

Following the imposition of quotas, assistance afforded to TCF industries were estimated to have increased dramatically. Quota assistance is said to be 'open ended' because it guarantees domestic producers a proportion of the domestic market regardless of their international competitiveness. Conversely, the major improvement in TCF's international competitiveness as a result of the 1985-86 devaluations has reduced the assistance afforded by quotas.
Tariffs and quotas increases the prices to consumers and users of those products. In 1984 it was suggested by the IAC that assistance then prevailing had an impact on domestic prices equivalent to a sales tax of 40 per cent. At a more disaggregated level the IAC also calculated disparate rates of assistance to different activities within the TC&F sectors. When activities using similar processes attract divergent rates of assistance, there may be adverse consequences for resource allocation as prices reflect assistance arrangements as well as consumer demand and production costs.

According to IAC estimates (IAC Annual Report 1986–87) average effective rates of assistance for activities in the clothing and footwear sector exceeded 250 per cent in 1984–85, but was reduced to 146 per cent in 1985–86. Textiles sector average effective assistance had a lower marginal fall from 74 per cent in 84–85 to 71 per cent in 85–86.

They contrast with a total manufacturing average effective assistance rate of 22 per cent in 1984–85 and 20 per cent in 1985–86.

Despite these persistently high rates of assistance, the sector has been characterised over the past 20 years by significant labour shedding.

While some critics of the tariff and quota arrangements have focussed on the extent to which such protection enables companies to insulate themselves against changing fashion and the adoption of most productive technologies, other commentators have decried the propensity of producers – some foreign owned – to adopt labour saving technology to the extent that it has to be questioned whether the assistance is protecting labour or capital.


The new TCF plan, to run from 1989 to 1996, has been finalised following an extensive IAC report and input from the TCF Industry Council – which provided a forum for consultation between Government, unions, employers, importers and retailers.

The focus of the new plan is on positive assistance measures designed to facilitate industry efficiency rather than the cruder protective mechanisms of tariffs and quotas.

The proposed arrangements involve:

1. **Raw Materials processing program** which seeks to increase export earnings by facilitating greater domestic processing of Australian wool, cotton, skins and hides. The AIDC has been allocated up to $27 million over the life of the plan to finance up to a one-third equity investment in projects with the greatest potential for cost effective value added and export earnings.
2. **Industries Efficiency Program** to improve the efficiency of TCF firms by diminishing internal factors that have limited their ability to compete with imports and develop export markets.

3. **Industries Infrastructure Program** to provide support to upgrade the industry's skill levels, especially in the areas of management and design.

4. **Export Development Program** to encourage exports of TCF products, with the help of Austrade and possibly a specialised TCF trading company.

5. **Changes to current assistance arrangements** include phased reductions in quota protection, simplifying the administration of quota expansion, phased introduction of ad valorem tendering and a rationalisation of rates of tariffs, bounties and policy by-laws.

6. **Adjustment assistance for employees and regions.** Up to $50 million has been allocated to fund income support for vocational training, wage subsidies, formal training and relocation to assist workers to become re-employed in jobs outside the TCF industries.

7. **Safety-net Provisions** to prevent adjustment exceeding appropriate measures. The Authority is empowered to recommend corrective action if it believes that despite industry initiatives, the plan is likely to cause aggregate TCF production to contract by more than 15 per cent.

The TCF Development Authority is established by the Bill to develop, implement and administer the operation of the Plan.

**Main Provisions**

Part II provides the establishment, objects, functions and powers of the Authority.

Clause 8 outlines the power which the Minister can use to direct the Authority on the policies and practices that should be adopted.

Clause 9 requires the Authority to submit to the Minister for approval an annual plan covering general objectives, proposed action and funding allocations for the programs for which the Authority is responsible.

Part III provides for the constitution and meetings of the Authority.

Part IV outlines the Industries Development Strategy Program which sets out the framework for the adoption of programs for promoting efficiency of TCF industries including the Raw Materials Processing Program, Plant and Equipment Modernisation Programs and the International Competitiveness Incentive Program.
Part V outlines the conduct of formal inquiries.

Clause 68, a sunset clause, provides for the wind-up of the authority in 1996 at the end of the TCF plan.

Remarks

The IAC 1986 - 87 Annual Report observed that:

'...the proposed removal of quota protection represents an important break from the approaches of past TCF assistance packages. In this respect, the program of reform has the potential to increase industry efficiency and reduce the sector's reliance on community support...

The net effect of other proposed changes to current TCF assistance arrangements is difficult to predict. The proposed modifications to tariffs and bounties and policy by-laws will raise the level of assistance afforded some activities, while lowering the assistance afforded to others.

Similarly, the 'positive' assistance provided by the Industries Development Strategy may succeed in encouraging increased domestic raw materials processing, enhancing the skill base of TCF workers and increasing exports...’ (p.121).

The IAC also cautions on the potential downside consequences of government intervention. It should also be pointed out the devaluation of the Australian currency since 1985 has alone been responsible for a massive improvement in the international competitiveness of Australian TCF industries.

Reorienting assistance from traditional measures such as tariffs and quotas to positive instruments to facilitate industrial efficiency and export orientation may encourage strategic resource utilisation and development, more tailored to Australia's long term requirements.

For further information, if required, contact the Law and Government Group.

18 April 1988

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