

## COMBINED TCF INDUSTRY POSITION ON CARBON TAX

This submission addresses the impacts of a carbon tax on the Textile Clothing Footwear and Leather (TCF&L) industry and its workers. The position was arrived at through a consultation process initiated by the TCF Industries Innovation Council.

It consolidates a joint industry and union position conceived by representatives concerned about the likely impacts on their members and the broader sector.

The parties involved include;

- Australia Association of Leather Industries
- Carpet Institute of Australia Ltd
- Council of Textile and Fashion Industries of Australia
- Footwear Manufacturers Association Australia
- Technical Textiles and Nonwoven Association
- Textile, Clothing and Footwear Industries Innovation Council
- Textile Clothing and Footwear Union of Australia

In general terms the industry sector supports the transformation to a sustainable and lower carbon economy.

## SIGNIFICANCE OF TCF&L

The TCF&L industry in Australia is a diverse sector that undertakes a wide range of manufacturing, design and supply activities conducted along the value chain. The sector is critical to the defence, protection, housing, transport, health and wellbeing of ordinary Australians.

The size of the sector has reduced over time, however it is still a very significant contributor to the Australian economy, with almost 5000 businesses conducting manufacturing activities that employ 45,000 workers and many thousands of outworkers/home based workers. The TCF&L industry has already undertaken significant structural adjustments to accommodate increasing global competition and has in many cases developed innovative and sustainable solutions to transform its product offer and its operations in order to remain viable.

Over the period of the adjustment, a considerable investment has been made in high tech equipment and machinery which has underpinned this transformation.

TCF&L plays an important role in providing regional employment. It is also a key sector for women who make up 61% of the workforce. The sector does provide important jobs for those entering the employment market.

## COMMITMENT TO SUSTAINABILITY

The sector is committed to a sustainable low carbon approach that also includes ethical labor conditions, environmental protection, water and energy conservation, waste minimization and the safe use of chemicals in processes and end products. All of these factors contribute to a sustainable position and this is seen as a longer term competitive advantage by the industry. For most businesses this commitment is a journey, one that is embraced at different intervals depending on the drivers and the pressures brought to bear.



Footwear Manufacturers  
Association of Australia



COUNCIL OF  
TEXTILE & FASHION  
INDUSTRIES OF AUSTRALIA LTD.



Technical Textiles & Nonwoven Association



TEXTILE CLOTHING & FOOTWEAR  
UNION OF AUSTRALIA

TCF&L businesses are not listed amongst the Australian sectors that are big emitters of carbon. The business do however use electricity as their primary source of energy and the projected increase in power costs is a major concern to the sector. Cost pressures are a constant worry as the sector is significantly trade exposed and as such under enormous price pressure from imports. There is sensitivity to regulatory changes that can increase the cost burden on businesses.

A carbon tax is viewed by the sector as an effective mechanism to drive changes in the behaviour of the big carbon emitters. However the combined industry position is cognisant that a carbon tax's effectiveness could easily be undermined by absent or misdirected subsidies and assistance programs adopted to ease the transition.

## **LIKELY IMPACTS OF A CARBON TAX ON TCF&L**

TCF&L is one sector that has not been recognised for the gains it has made and the resilience of businesses that have survived 30 years of restructuring brought on by the general reduction in tariff levels.

While the sector is definitely resilient, it is currently vulnerable due to increased costs brought on by other external factors such as;

- Surge in raw material prices over the last 12 months including rises in cotton (143%), polyester (82%), silk (87%) and wool (48%).
- 30% increase in the AUS dollar which is putting pressure on exports and lowering the cost of competitive imports
- Free trade agreements with developing nations being introduced with many tariff lines now reduced to zero

The vast amount of TCF manufacturing is based within the SME segment, which is struggling to counter the current cost pressures mentioned above. The impact of the carbon tax on this segment is not readily understood, as the focus of business in recent years has been on the adjustment to the lower tariff levels. The carbon tax could be the tipping point for this trade exposed industry segment and this “silent majority” of employers will need time to adjust their products and processes to meet a lower carbon footprint.

The heavy emitters, on the other hand, have been working on energy efficiency for several years and have been able to focus government attention on their need for assistance in dealing with the transformation to a lower carbon world.

The “silent majority”, who provide the bulk of employment in the manufacturing sector, have been ignored in this debate. It appears that the Department of Climate Change and Energy Efficiency has focused on the heavy emitters without understanding the impact of a carbon tax on the general manufacturing sector.

Reports from the Grattan Institute state that the carbon tax is not material to this business sector as power costs represent 4% of turnover. Margins in manufacturing have been minimised by commodity prices and exchange rate movements, and any significant increase in power costs will seriously erode the profitability of this sector.

Most importantly, if there is a carbon tax on local manufacture but not on imports, businesses are likely to move offshore and the country will simply “export” its carbon commitments to developing countries. The morality of such a move has to be challenged.

Above all, any new tax has to be fair to all sectors of our economy. The will for manufacturing to invest in the new low carbon economy has to be kept alive.

## **RECOMMENDATIONS**

Changes to the regulatory landscape must include support for businesses to manage the transition to a low carbon economy. A mechanism to offset costs should go to businesses that create jobs and reduce their carbon footprint. This country should not be simply installers of overseas technologies.

Programs geared to speed up the rate of adjustment and lessen the risk of TCF&L businesses going offshore could include;

- financial incentives for environmentally-related investments in new plant and equipment to support manufacturers to improve energy and green house efficiency (previous programs along the lines of the TCF Post 2005 Strategic Investment Program Scheme have already proven to be successful)
- financial incentives to develop new low carbon concept products
- provision of assistance to SME’s who may face significantly increased energy and costs as a result of the introduction of a carbon tax
- provision of assistance for skill development and training of workers in new clean technology, products and processes
- imports subject to the same carbon tax as Australian made products
- enhanced measures to assist business export programs
- formalisation of ongoing consultation with the TCF&L industries regarding the further development of, and implementation of the carbon tax

To fully understand the impact, modelling across a representative range of TCF business types would provide solid evidence. A full understanding is needed of not only the direct cost but also the indirect increased costs (that cannot be controlled) in all goods and services supplied into TCF&L businesses. Many of the value added products now made by TCF&L industries are elaborately transformed materials and, as such, have a high level of embodied energy and Greenhouse emissions.

## **CONCLUSION**

This industry sector is committed to moving to a low carbon environment that will create new jobs, new products and new processes. The transition needs to be carefully managed and the current business fragility respected. The Government has stated that it is willing to assist industry to make this transition but there is currently no detail on how this assistance may be granted. Maintaining employment, while the transition occurs, is

critical to ensure that workers and their industry have the collective will to invest in the future of local manufacturing.

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