TCF Tariff Cuts: A Key Character Test

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CANBERRA is presently facing a key character test with respect to its 'Modern Economy' credentials through the review of tariff and industry assistance for the textile, clothing and footwear (TCF) sector. Despite this difficult test of economic integrity, however, Canberra need only stick to its existing taxation, trade and industrial relations policies.

Victoria is home to 20 per cent of Australia's sheep flock and to a large section of the TCF sector. It therefore remains a key battleground in the fight to lift Australia's tariff barriers. Currently, the TCF sector, which directly employs 64,000 people, receives direct budget and tariff assistance of about $800 million and enjoys an effective assistance rate of 25.6 per cent.

The VFF Pastoral Group, which represents over 5,000 Victorian farm businesses, including thousands of wool producers, is intent on seeing Canberra cease all relevant industry support programmes by 30 June 2005 and reduce all TCF tariffs to five per cent or less by 2010. We would like to see this happen because wool producers believe that the short-term economic benefits of false economies are far outweighed by the massive potential of a highly competitive textile export sector. Moreover, by eliminating market-distorting tariffs, Government will have the chance to enhance Australian business performance by improving economic opportunities.

As things stand now, tariff protection ensures that Australian families pay higher prices for life's necessities such as clothing, shoes and socks. As well as inflating the cost of living, tariffs also lead to higher business costs for work equipment, such as uniforms and farming gear. Curiously, rather than assist industry and consumers by improving growth prospects and profitability, current tariff policy actually burdens textile businesses by discouraging innovation, stagnating market growth and rewarding idleness. Clearly, TCF tariffs are failing to encourage the achievement of their desired objectives.

TCF tariffs also hurt our international trade goals through the WTO. On the one hand, Australian representatives are aggressively pursuing agricultural tariff reduction in the US, the EU and Japan; on the other, Government is drip-feeding its inefficient manufacturing sector via a generous tariff system. As any good negotiator will tell you, nothing can be more devastating to one's argument than the charge, 'do as I say, not as I do'. For Australian businesses to truly benefit from free trade agreements, our representatives must be able to argue their case both logically and morally. By arguing against that which we conduct in our own backyard, our ability to achieve real outcomes remains extremely weak.

Another area that is affected by TCF tariffs is IR reform. Despite several attempts to achieve real change in this area, Canberra has failed to pass legislation that delivers flexibility to business. The failure to achieve this change is as much a result of political obstruction as it is a lack of policy consistency. By continuing to maintain inefficient businesses on the taxpayer-funded tariff drip, reform pressure on industry remains non-existent. The very fact that the Presiding Commissioner of the Productivity Commission, David Robertson, said in the *Financial Review* (16 April 2003) that 'Australian firms could not compete against significantly lower labour costs' is a telling point of the need for urgent IR reform. Ironically, the industry that would most benefit from Canberra's IR agenda is the one that enjoys the best tariff protection. By removing TCF tariffs, Canberra would undoubtedly gain a powerful ally in the push for IR reform. Without a doubt, this industry policy contradiction must be resolved before serious IR reform can be achieved.

Overall, there are three extremely good reasons for delivering sensible tariff reform to the TCF sector. By adhering to its own principles, following commonsense, and by acting in the best interests of Australian consumers and business, the path for our political leaders could not be clearer. Canberra needs to turn up the heat under our tariff protected industries, quicken the pace of industrial reform and put an end to the industry protection that undermines our nation's economic interests.

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