



SUBMISSION TO

THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

**Pacific Agreement on Closer Economic Relations
(PACER) Plus**

30 July 2009

INTRODUCTION

Bruck is making this submission in light of the extensive trade it has enjoyed in the Pacific region over the last 20 years, and given the potential importance of ongoing trade in this area for Bruck.

As such, we can see that any developments with PACER Plus could have a real significance on Bruck's own future plans. At the very least, these will be taken into consideration in determining Bruck's strategic priorities over the coming years

BRUCK TEXTILES – COMPANY OVERVIEW

Bruck Textiles Pty Ltd is a privately owned company, which has been established in Australia for more than 60 years, but with strong plans for the future.

Bruck is the largest textiles mill in Australia, with an annual turnover currently around \$100 million. Local manufacturing is undertaken in Wangaratta (in north-east Victoria), employing some 300 persons, engaged in fabric weaving, knitting, dyeing, printing, coating, lamination and distribution.

The company has long been established as Australia's pre-eminent manufacturer and supplier of woven fabric for industrial and corporate wear, specialty fabrics for protective apparel and defence products, drapery, linings, blinds and ready made curtains. However, with the recent acquisition of Melba Industries, Bruck is now also firmly positioned in the manufacture of performance and protective industrial fabrics for the automotive, military, fire fighting, mining and commercial seating markets.

Bruck also owns Wilson Fabrics and Wallcoverings, a wholesaling and distribution business (with a distribution centre also based in Wangaratta on a group owned site but separate to the manufacturing facilities). A further 30 persons are employed collectively at the company's corporate headquarters and sales office in Rosebery, Sydney and its Melbourne and Brisbane state sales offices.

The Melba acquisition, coupled with Bruck's steady growth beforehand, underscore the company's commitment to firmly establish itself as an internationally recognised high performance fabric producer, developing world class innovative products, the benefits of which can already be seen in the Defence and Volunteer Emergency Services throughout Australia. Moving forward, Bruck will be a major player in developing, manufacturing and supplying:

- Interior textiles
- Automotive fabrics
- Defence textiles, including ballistic fabrics
- High performance, highly technical textiles
- Smart (electronic/sensor) textiles

BRUCK'S PACIFIC REGION TRADE HISTORY

Bruck has been exporting woven fabrics to the Pacific region for more than 20 years. Most notably, Bruck's fabric exports have been destined for Fiji, although New Zealand has also been a significant market for this product. Indeed, Bruck has been the predominant Australian exporter of woven fabrics to this region throughout this period.

Unfortunately, over the last decade, the level of Bruck's exports to these countries has steadily dropped.

In part, this is due to the dramatically increasing level of clothing imports from 3rd countries into this market, which has severely constrained the region's own garment making activity and thus eroded demand for fabric.

However, in the main, Bruck's export opportunities in the Pacific region have waned due to the Australian Government's own policy decisions in relation to the trade agreements pertinent to this area, which have steadily seen a watering down of the local content provisions of these Agreements. This has made 3rd country fabric imports more attractive for the Fiji and New Zealand garment manufacturers, at Bruck's cost.

To put this in perspective, in the financial year just concluded, Bruck exported \$A5 million worth of fabric to Fiji and just over \$A0.75 million to New Zealand. While exports to New Zealand over recent years have held relatively steady (down 8% since 2005/06), exports to Fiji have slumped dramatically (down 58% since 2005/06).

However, the picture is even worse when we look at Bruck's trade levels in the 1990's. Our exports to New Zealand were some 3 times greater than they are now, and exports to Fiji were 10 times greater, reaching a peak of \$A53 million in 1999/2000.

With regard to New Zealand the decline in export sales, as mentioned above, has been a function of both a declining garment manufacturing industry in that country and problems associated with intermediate goods issues and constant pressure to water down the local content provisions under the ANZCERTA arrangements. However, as long as there are no further changes to the underlying principles of Australia and New Zealand's trade arrangements, this trade is now relatively settled and future developments should be a result of pure commercial considerations rather than any artificial impetus through Government decision-making.

But the situation with Fiji trade is far different, and the growth and decline in Australia's trade interaction with Fiji, in so far as textiles and clothing products are concerned, has been clearly and indelibly influenced by the Australian Government's policy decisions.

There is no question that the introduction of the South Pacific Regional Trade and Economic Agreement (SPARTECA) in 1982 attracted initial interest to the region, although it was really Fiji's own introduction of its Tax Free Factory/Zone Scheme in 1988 that triggered the growth in garment manufacturing in that country. And this of course led to demand for Australian fabric, especially given the 50% local content requirement under SPARTECA.

However, it was with the Australian Government's introduction of the TCF Import Credit Scheme (ICS) in 1992 that really kicked off Australia Fiji trade (in TCF products at least). The combined effect of the SPARTECA arrangements and the ICS fuelled strong growth in the Fiji garment industry over that decade and a consequent increase in demand for Australian textiles by Fiji – which led to Bruck's own record export levels to Fiji by the end of the 90's.

It was evident to all that this level of trade would decline once the ICS was terminated, which it eventually was in 2000. While the Australian Government did introduce the SPARTECA (TCF Provisions) Scheme, or S-TCF, in 2001 in an effort to curtail the fall out from the termination of the ICS, the benefit accorded by these new provisions fell well short of that which existed previously, and Australia Fiji trade declined significantly after 2000.

Nonetheless, the S-TCF provisions were specifically designed to offer some perceived incentive to Fiji TCF manufacturers to utilise Australian fabrics, and other intermediate products, but enable them greater sourcing flexibility. This did work to a

certain extent, and Bruck's fabric exports while falling dramatically from the \$A50 million plus experienced pre 2000, did stabilise to just above \$A10 million per annum by the mid 2000's.

Unfortunately, the Australian Government chose to tinker with the S-TCF arrangements in late 2008/early 2009, reducing the Minimum Local Area Content provisions, and this led to an immediate dramatic decline in demand in Bruck fabric in this period. That is, Bruck's fabric exports to Fiji dropped from \$A9.7 million in 2007/08 to \$A4.9 million in 2008/09 (a fall of 49%) as a direct consequence of this decision.

VIEWS ON PACER PLUS

Overall, Bruck (and we suspect Australian manufacturing industry generally) has been very sceptical of the Free Trade Agreements that Australia has developed with other regions, as they seem to be "one way streets" with very little benefit flowing through for Australian industry.

However, in the main, initial moves to establish these agreements have been cautiously supported as we do recognise that most countries with which a Free Trade Agreement has been considered, have a significantly larger market than Australia and that this could present some real opportunities for efficient Australian manufacturers.

Unfortunately, when it comes to the implementation of those Agreements, the Rules of Origin ultimately agreed upon are so disadvantageous to Australian industry that the expected benefit has never materialised. You need look no further than the Australia USA Free Trade Agreement for proof of how short-sighted (*or naïve*) Australia's trade negotiators were.

Similarly, just noting Bruck's own trade experience with Fiji, it is evident what a major – and immediate – impact inappropriate (ie insufficient) Rules of Origin can have on the local industries' overall viability. Getting the Rules of Origin right – ie sufficiently rigid – is vital.

This will be particularly the case with PACER Plus, where the reality is that the enhanced market prospects for Australian industry, given the relative size of the markets of the other member states, will not be particularly significant.

Nonetheless, Bruck welcomes the proposed move to a genuine CER trade agreement for the Pacific region overall, which would open up prospects for two way trade. While it is difficult at this moment to recognise where new opportunities may present themselves, we agree that the economies and trade capabilities of the Forum Island countries have reached a certain "Coming of Age" that warrant a more sophisticated trade agreement than the existing SPARTECA arrangements, which are more a "trade aid" agreement.

However, for all the reasons outlined above, it is vital that there are no unnecessary distortions within PACER Plus to a true trade agreement. That is, there should be no watering down of rules of origin and no derivations to what is agreed across the board.

In this context, if the Forum Island countries have truly come of age and are deserving of a sophisticated genuine free trade agreement across the region, then there is definitely no call for special provisions such as SPARTECA-TCF and the Minimum Local Area Content embodied within those provisions. Indeed, given that Australia's General Tariff for fabrics will be cut to 5% on 1 January 2010, and for

clothing to 10%, there is really no need for such distortions within the existing SPARTECA arrangements.

We cannot over-emphasise the need to ensure that the Rules of Origin and both appropriate and sufficiently rigid under PACER Plus (and indeed all Australia's Free Trade Agreements), especially given the product lines that Bruck is increasingly moving towards. These are highly valued added fabrics, encompassing complex and extensive finishing processes.

Bruck has invested heavily in repositioning its business and investing in the latest technology to ensure that it can service the higher value end of the market. It is on this basis that Bruck has established strong markets around the world, and it is on this basis that it would wish to continue to service the Pacific Island region. It would be desirable that PACER Plus supports these efforts and vital that it does not hinder them.