

"EXPANDING AUSTRALIAN OPPORTUNITIES"

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Many cotton growers are asking "Why can't Australian cotton mills spin more cotton?" Many hundreds of thousands of bales of cotton are imported into Australia as finished yarns and fabrics - why can't this be Australian cotton through Australian mills? In addition to the domestic market, why can't Australian mills export their product as Australian farmers do?

I would like to attempt to answer these questions by considering the following aspects:-

- (a) How big is the market which could be available to Australian mills?
- (b) Why have Australian mills been unable to supply this market?
- (c) What needs to be done to enable Australian mills to compete better for this market?

1. THE MARKET

The market for cotton textiles in Australia in yarn, fabric and garment form has been estimated at 700,000 - 800,000 bales. The Australian spinning industry will spin a little over 100,000 bales of 1990 crop Australian cotton. There is thus a large domestic market which the Australian textile manufacturing industry is not currently supplying.

If we compare Australia with other Western countries, we see that most countries have a much larger cotton textile manufacturing industry. Countries such as Germany, Italy, France and Japan are high wage cost countries, yet all of these countries have good shares of their domestic markets and are significant

exporters. None of these countries have a cotton growing industry. The United States, which has a cotton growing industry, has a very large cotton manufacturing industry. With a population about 15 times as big as Australia's population, the USA spinning industry will spin about 80 times as much cotton as the Australian spinning industry this year!

The Table below shows statistics supplied by the International Textile Manufacturers Federation for 1988-89.

Country	Spinning Capacity		Weaving Capacity		Raw Cotton Usage Tonnes P.A
	Ring Spindles	OE Rotors	Shuttle Looms	Shuttleless Looms	
U.S.A	12,402,000	650,000	65,460	64,180	1,506,000
JAPAN	8,630,000	180,000	69,540	40,000	551,000
WEST GERMANY	1,507,000	101,200	4,600	12,680	208,000
ITALY	2,032,000	79,000	6,440	18,150	254,000
FRANCE	919,000	108,100	2,640	10,220	145,000
AUSTRALIA	62,000	11,000	100	1,000	22,000

It is clear that other countries with higher wage costs than Australia have much larger cotton manufacturing industries on a per capita basis. We must then ask the question:-

2. Why have Australian mills been unable to supply their market?

The answer to this question is very complex and I can only touch on some of the major factors.

Australia's development as a supplier of raw materials to the U.K, and later to other industrial countries, did not create an environment in which manufacturing industry could naturally flourish.

The export of large quantities of primary products created a balancing import of manufactured goods, and in many cases it was against the interests of multi national companies to manufacture in Australia. The cotton textile industry has never been established in Australia in many products such as fine poplins for shirting, and the education and training infrastructure has never been capable of supplying enough skilled people to the industry.

Partly due to the wealth created by primary products, labour cost in Australia became high, particularly when related to productivity. There are many hard working people in Australia, particularly in farming and small business, but productivity in manufacturing industry is low by international standards. For a multitude of reasons, labour intensive operations are uncompetitive.

The quality and price of cotton were also factors which did not encourage growth of the industry. Until the recent development of better strains of cotton, Australian cotton was rather weak and not suited to the production of many textile products. This was not a big problem for overseas users of the cotton, as they would blend Australian cotton with other types, but it was a big problem for Australian spinners using Australian cotton alone. The pricing of Australian cotton to Australian spinners also did not encourage growth of the manufacturing industry.

In the 1960's and early 1970's, the Australian spinning industry was using more cotton than was being grown in Australia, and had to import cotton. In order to encourage expansion of the cotton growing industry, the Federal Government introduced an import parity pricing system for the pricing of Australian cotton to Australian spinners. This meant that spinners paid to processors a price as high as if they were importing cotton from the USA. This pricing system was of great value to the growing industry in the early years of expansion of the growing industry, but meant that spinners were getting no advantage from the existence of locally grown cotton.

The structure of the Australian cotton manufacturing industry today reflects the economic and other pressures which have shaped it. Most spinners are parts of vertical groups producing fabric, domestic textiles such as sheets and towels, or garments. The products produced are medium to heavy weight, such as denim, canvas, drill, terry towelling, sheeting and knitted fabric. This is due partly to the suitability of Australian cotton for these products, and partly because the products are less labour intensive than finer products, and therefore more competitive with imports. As these vertical groups in most cases hold dominant shares of domestic markets for their products, there is unlikely to be a big expansion in their operations, unless they diversify or export.

The protection of the Australian Textile Clothing and Footwear Industry from import competition has also not helped to develop the industry, as it has until recently been designed to allow a progressive decline in the size of the industry.

All of these factors have been reasons - some would say excuses - for past failure to prosper, and I would like to move now to a more positive and interesting aspect:-

3. What needs to be done to enable Australian mills to compete better.

It is encouraging to report that good things are already happening. All the major Australian mills are now owned and controlled by local interests, and major efforts are being made to improve their ability to compete in the market. The Federal Government has adopted a policy of encouraging local manufacturing industry, particularly those which add value to local raw materials such as cotton and wool. New technology in spinning mills, particularly open-end spinning, has reduced labour cost dramatically, and the Australian spinning industry is now more modern and efficient. The new varieties of cotton developed by CSIRO are of great benefit to the spinning industry in making good quality yarns, and will allow a wider range of yarns to be produced from Australian cotton. The import parity pricing system was discontinued about two years ago, and spinners now have a better chance of obtaining Australian cotton at export parity price.

At this stage, these and other factors have led to large investments being made in the textile manufacturing industry. Most Australian mills are now operating modern plants and are exporting a small proportion of their production. In our own case at Rocklea, we have expanded production by about 250% in the last four years, mainly by import replacement. However, economic conditions in Australia have led to very tight market conditions, and total cotton usage this year will

be little changed from what it was five years ago.

We therefore need to look at what other measures need to be taken to encourage expansion of textile manufacturing. The most important measures relate to productivity improvement, which depends upon genuine micro economic reform and award restructuring. This is in the hands of government, and we can only hope that there is some progress in these areas.

Other areas of Government influence include the protection of the industry, and the provision of education and training infrastructure. In the area of industry protection, the current seven year plan for the industry is more positive than previous plans, and includes some developmental strategies. It is now seen by government that the textile industry ie: production of yarns and fabrics, can be internationally competitive if production facilities and skills are of world standard. We would concur with this and would propose that further changes to industry protection should encourage development and reduce barrier protection.

In the area of education and training, industry is working with State and Federal Governments to improve the situation, but much remains to be done. Efforts are under way to instal a National Spinning Skills Centre where small scale production facilities could be used for training and trial purposes. This could be of use in evaluating spinning performance of new cotton varieties.

The pricing of Australian cotton to local spinners is still a matter of some concern. If Australian spinners are to have any advantage from the existence of

the Australian Cotton growing industry, they must be able to buy cotton at export parity price. There is still reluctance by some sellers of cotton to accept this, as they enjoyed an artificial import parity price for many years. One problem of buying Australian cotton and using it over a twelve month period is the high holding cost. Present high interest rates in Australia encourage spinners to buy Australian cotton for only half the year, say July-December, and import cotton for the January-June period. Availability of low interest finance would solve this problem.

Another approach to expanding the industry is to create consumer demand by advertising, and it is encouraging to see that efforts are now being made to promote Australian cotton. A joint approach by the growing and manufacturing industries to promotion of Australian cotton textiles grown, spun and woven (or knitted) in Australia could have tremendous effects on the industry, similar to what has happened in the USA.

In fact, a "joint approach" by growers and manufacturers, unions and government is necessary if textile manufacturing is to prosper in Australia. It is essential that manufacturing industry expands, otherwise the standard of living of all Australians will continue to suffer.

Every bale of cotton sold to an Australian spinner is creating wealth in this country, as value is added at each stage of manufacture. Productive employment can be created which is not dependant on high levels of protection from imports, or support from other sections of the community.

The cotton growing industry has proved that it can compete very well in the world market and I am sure that the cotton textile manufacturing industry can do likewise. A little bit of support in the early stages of our growth would go a long way!