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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO GENERAL TARIFF ARRANGEMENTS

MR J.H. COSGROVE, Commissioner
MR M.C. WOODS, Commissioner

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON TUESDAY, 19 JANUARY 2000, AT 9 AM

MR COSGROVE: Good morning, everyone, and welcome to the commencement of the public hearings for the Productivity Commission's Review of Australia's General Tariff Arrangements. My name is John Cosgrove. I'm the presiding commissioner on this inquiry. At my left is Michael Woods, a fellow commissioner, who is also working on this inquiry. The purpose of these hearings it to give interested parties the opportunity to discuss their views and their submissions on the public record. This will help the commission in its task of assessing the costs and benefits to Australian consumers, industries and their employees, and the general community, of a reduction of all general tariff rates under review.

After this initial hearing in Melbourne there will be hearings in Canberra on 21 January and in Sydney on 27 and 28 January. We intend to release a draft report for public consideration in May and a further round of public hearings will be held after people have had time to examine that report. Reactions to the report of course will be taken into account in producing a final report which is due to be delivered to the government in late July. Copies of the draft report and the final report will be circulated to all those who have made submissions as well as to those who appeared at hearings or registered an interest in the inquiry. We intend to conduct the hearings as informally as possible, although the Productivity Commission Act requires participants to be truthful in their remarks.

A transcript of the hearings is made to provide a record of discussions. Transcripts and non-confidential submissions to the inquiry are public documents and can be viewed at the commission's offices. They can be viewed also at public libraries in capital cities. Copies can be purchased and order forms are available from our staff here today or by contacting the commission later. Alternatively, submissions and transcripts can be viewed on and downloaded from the commission's Web site.

While initial submissions will be accepted by the commission after these hearings, the sooner they are provided the more likely they are to be given full consideration in the preparation of the draft report. I will ask participants to identify themselves this morning and to indicate the capacity in which they're appearing before us, and we can begin with the first participant today which is the National Furnishing Industry Association of Australia.

MR RADDA: Thanks very much. Mike Radda is my name, chief executive of the National Furnishing Industry Association.

MR COSGROVE: Thanks, Mike, and thank you for providing us with a substantive submission which we have had the chance of reading, of course. Are there any particular points that you wanted to draw to our attention?

MR RADDA: I guess just as a bit of an overview. There are principally two key issues with respect to this review that relate to the furnishing industry and an underlying concern they have, so the two key issues are one of a timing issue and the second one is the penalties this industry currently experiences due to textile tariffs. The underlying concern relates to an issue about the economic analysis based on what we believe is probably inconsistent data that's actually available from the ABS, so the timing issue is one that this industry, the furnishing industry, is currently undergoing an action agenda with the Federal government. We're doing a lot of planning to establish what strategies we need to implement to make the industry world competitive.

We're nearing the end of that planning process. If tariffs were removed at an earlier point than they have already committed, that would have a major impact on our ability to achieve those strategies and targets that we have put in place at the moment. The second one is, I guess, a little bit more pertinent and that's the issue of the textile tariffs. Furniture manufacturers buy their textile inputs with a loading from textile tariffs. That means, all other things being equal, if you're an upholstery manufacturer in Australia you're going to be uncompetitive with any sort of international comparisons.

Leaving out all other comparisons - labour, anything else - because your inputs are higher than your competitors, your end product is going to be more expensive. There is some compensation to that because there's a 5 per cent finished good tariff. If that comes off even earlier the penalty suffered, I guess, by the furnishing industry actually increases because there is still that loading of the import on the textile tariffs. Some of the data we have been looking at suggests at the moment that the import growth in that sector of the industry is the highest across the board. So while we have got import growth in the furnishing industry at a general rate, the textile or the upholstered products are experiencing the strongest growth of the lot, and it's our concern that this issue that we're dealing with in the action agenda about becoming world competitive and implementing strategies is significantly undermined because our inputs are overpriced.

The concern about the economic analysis comes back to a couple of things. One, for us, it's an inconsistency with ABS data. For us, if we look at international trade there are three or four different groupings of data we get from the ABS. They're all different. Secondly, if we look at manufacturing data for our industry, it gives you a figure of about 43,000. If you look at our industry from the input-output section of the ABS you get a figure close to about 80,000 employees Australia-wide. When you get sectoral differences of that magnitude we question, I guess, how are you able to take economic analysis of our industry when the data is so variable? I mean, putting it harshly, it's rubbish in, rubbish out, to some extent, so we have some major reservations about what data you're able to access, I guess from the ABS, to undertake an analysis of our industry.

Again coming back to the action agenda, we found data that's collected on our industry is well below standards met say with some of our international competitors: Canada, America, Europe, a whole lot of other areas. The other one we have in terms of the economic elements, it comes back to sectoral analysis, and that relates to our experience in things like APEC, early voluntary sectoral liberalisation. The furnishing industry unfortunately is being traditionally grouped into forest and wood products.

The Department of Trade over 97-98, had a policy to push for early voluntary sectoral liberalisation. The furnishing industry made a number of submissions to say that if we're included in this group there will be significant job losses in our industry. We weren't aware, or were unable to get any sort of analysis that looked at the individual sectors in those groups, so it's my belief, I guess, that some sort of overall economic analysis was done of the impact of tariff changes on that broad grouping. That says to us therefore that people are willing to accept that there are significant winners and significant losers; either that or the sectoral analysis wasn't done and you just sort of worked with the broad numbers. So I guess one of the issues for us is that we believe there does need to be a better sectoral analysis.

That issue with the APEC early voluntary sectoral liberalisation continues to this day. It's our government's policy. It was the policy for last year's World Trade Organisation negotiations under a new title called Accelerated Trade Liberalisation, but the furniture industry remains within this product and wood products grouping, and it seems to us that either we're just taking the broad sort of economic analysis and not worrying about the impact on sectors or there is a preference to agricultural mining sectors over manufacturing sectors. It seems to us they're the only two possible conclusions. So I guess our submission to you is we have tried to provide some substantive detail behind those major claims, but in essence it comes back to the fact that there's a timing issue for this industry.

We believe we can be world competitive and the strategies that we need to implement are now, and we have got like a target for the next five and 10 years. Changes within that time frame will seriously undermine our capacity to achieve some of those strategies. The second one is that we had, I guess, that impost - or it's sometimes called negative assistance because we have to purchase products at inflated prices because they're artificially protected by high textile tariffs. And then that's, I guess, underpinned by some concerns about the economic analysis you people are able to actually undertake, given that there are some inconsistencies for what were coming in ABS data, and the fact that some of the previous sort of policies that relate to tariffs seem not to focus on some of the impacts of individual sectors.

I understand that with that you can take that to the nth degree and the sector could be three or four employees if you really want to subdivide it, but the furnishing industry isn't at that level. It's from data agreed to between the industry - the training and the Department of Industry. We're looking at manufacturing of 70,000, plus non-manufacturing sectors of about 40,000, so you're looking at an entire industry in the order of about 115,000.

MR COSGROVE: Thanks, Mike. Just on these data problems, which we obviously will have to address in our own analysis, leaving aside the sectoral classification of your industry are the data difficulties that you have identified related only to the employment statistics or do they affect - - -

MR RADDA: No, manufacturing productions. For instance, one of the issues I specifically related to was upholstered furniture. The latest data we have has a standard area between 50 to 100 per cent so we're making assessments on something with unbelievably high data.

MR COSGROVE: Does your association compile any industry-wide data?

MR RADDA: We do a lot of work on data we can actually access through the ABS. We previously in some of the sectors commissioned surveys and things but we don't do that on a regular basis.

MR WOODS: But you would be able to provide supplementary information to us on how you see the ABS data and what qualification you would put to it and what bounds you would apply to it?

MR RADDA: Sure.

MR COSGROVE: Okay, we might need to be in touch on that.

MR RADDA: I guess the best example from me is some of the definitions that the ABS use, because the sections don't relate, so it's which one you pick up that can give you the answer that you want. I gave you the example of the industry being classified in the manufacturing group through ANZIC codings, given an employment number of just over 40,000. If you go to the input-output section you get an employment number. When you work back through some other data it's something closer to 80,000.

MR COSGROVE: Okay, thanks for drawing that to our attention. I wonder if we could discuss some of the specific points in your submission to us. The first on my list is in a covering submission, or covering note, to your analysis, and it relates to this issue about timber availability.

MR RADDA: Yes.

MR COSGROVE: You say there that local furniture manufacturers are experiencing significant supply problems due to strong exports of lumber to China. Intuitively it seems difficult to understand why that should be the case because the Chinese buyers will be paying transport costs as well as the price of the timber itself. What's really going on here, can you tell us?

MR RADDA: It's actually not an uncommon problem, I guess. What happens, in export orders you can get big bulk orders so people will get a price down, and this just doesn't relate to timber, but there will be often be a discrepancy between what companies will sell the product for overseas to what they will sell it for in Australia and they'll mix and match, and they'll maintain their profit by keeping the price in Australia high, where there may be low competition, and sell it on the world market at world prices. That's not an experience by the way that's - this isn't the only case that might be. I had a specific example where Ikea were looking to set up their - they have divided the world into like six trading blocks for themselves.

In their Asia-Pacific region they were looking to establish their head office in Australia. They were planning to purchase some products, particle board and other bits and pieces in Australia, but were able to purchase Australian products cheaper offshore and so the head office of Ikea, I think - I'm not exactly sure but I think it's Singapore or Malaysia for that trading bloc.

MR WOODS: Is it a value differential or is it an actual physical constraint that you refer to?

MR RADDA: In this specific one here there's been a focus from our industry in timber on unique Australian timbers, so we're not talking across the board in terms of issues like pine, and they become very competitive in terms of access to them. So the Chinese market are buying it in volume and it's making supply problems for Australia. The Chinese industry - sorry to cut in but the Chinese furniture industry is growing at a great rate of knots, not just in terms of Australia but worldwide. From some international data it's predicted to grow 20 per cent per annum for the foreseeable future.

MR COSGROVE: What type of timber is this? You mentioned particle board. Is it - - -

MR RADDA: No, the timber I was talking about was essentially native hardwoods, Vic ash, those sorts of timbers.

MR COSGROVE: Is the price for these timbers rising correspondingly or - - -

MR RADDA: It's been more an issue of access because what's tending to happen is that it's the bulk orders versus a range of manufacturers in Australia buying small quantities which are more appealing.

MR WOODS: But there's a response at the production end so that there's increasing supply coming on-stream? I mean, I understand the lags involved, obviously.

MR RADDA: Timber supply is a little bit more constrained than that. I think there are commitments to logging quantities and all sorts of things. I think I would be heading in areas where I'm not too confident.

MR WOODS: No, that's fine.

MR COSGROVE: I'd also like to ask you about the statement, I think in the analysis attached to your submission, that any further reduction of the tariff on your outputs would have a big effect on employment and I think you referred to this yourself this morning. There's a figure there of potentially 24,000 jobs being lost if tariffs were removed, by which you mean, I guess, taken down to zero. That seems a very sizeable effect for a relatively small tariff change. One wonders, particularly in the light of the fact, or I take it to be the fact, on information in your submission that productivity levels seem to be quite low in the Australian industry, why there couldn't be compensating changes made within the sector to adjust to a lower level of domestic assistance.

MR RADDA: I guess both of those things you're saying are actually true rather than one or - and that was my issue of timing. The industry has identified issues like insufficient management training in low productivity issues as constraining its capacity to become world competitive. They're the sorts of things I just generally touched on and said we are actually starting to implement strategies to change. However, you don't get overnight change in those sorts of things. You have people on the floor; production practices are accepted. Just as an aside, there was a recent encyclopaedia release of the Australian Furniture Industry, 1788 to 1930. This industry isn't an overnight industry. It has been around for a long time. That's good and bad in some senses. The good side is that there is a tradition and a history to it.

Some of the constraining aspects is people tend to do what was done before so there is a time lag in terms of changing those things like production and things around. It's turning around much slower than we would like it to turn around and the import growth is evidence of that, I guess, and that's why if it doesn't turn around fast enough you basically lose employment - is the outcome of that.

The issue with the 5 per cent tariff being small was your other one. You may have heard of the boom that we've got at the moment being classified as a profitless boom. While companies are trading and retail is strong, there isn't a lot of room for error in the marketplace at the moment. That's our experience anyway. So while 5 per cent may sound small, to cut 5 per cent off your end price, particularly with your imports and stuff which don't change, there's very little place to take that out. So if you're competing right on the edge, if you like, with imports, which is what's happening at the moment, 5 per cent can be significant.

MR WOODS: But your productivity issue, you've mentioned there action agenda but what's the timing of that being finalised? How long will it take before you get some positive results from it? If you could expand that.

MR RADDA: Okay, our action agenda: the way an action agenda works, what we've done is we plan to I guess start it. We've been through the planning process the last 18 months. We're hoping to start working on the actual strategies and targets we've done in the latter half of this year and our targets and implementation phases over the next five to 10 years. So it's immediate, if you like, but we're looking at developing things like better management training, changing the way people actually work on their production, things like supply chain with retailers. The retailers in our industry nowadays are the major drive. If we can work on those sorts of issues in the immediate, you'll start to see benefits down the track.

MR COSGROVE: What is it about your industry that requires this intervention by a government agency to seek to drive increased efficiency? I mean, the present level of tariff has been there for I guess just over three years now. The industry has recognised that it does have low levels of productivity. Why wouldn't it have been in the interests of the businesses themselves that make up the industry to take steps to move closer to international competitive practice?

MR RADDA: That's an interesting question that I sometimes ponder on and I guess it's the difference between a perspective an individual company takes and an industry needs to take. For instance, if I shift it to make it a little bit easier to sort of explain, if you look at exports, our industry needs to export but perhaps most individual companies don't need to export. If you look at an individual company there's probably more opportunity in Australia - whatever. So it's that discrepancy between what an individual company needs to do to keep its market and what they have to do in terms of the industry broadly.

MR COSGROVE: The tariff has a bearing on those attitudes though.

MR RADDA: Sure, it does. But we're not talking from a situation where there aren't tariffs, or there wasn't. There has been, and we're talking about the changes being implemented on them. So there's been a recognition that we've made a commitment to 2010. There's other things that are happening currently so that we are working on making the changes necessary for that time. So there's a commitment been given to that sort of time frame. What's being discussed here is something over and above that and that's the issue more than anything else.

MR COSGROVE: So what sort of time frame does the association have in mind for this process of adjustment to higher efficiency to occur?

MR RADDA: I sort of answered that, I thought, before. They're working on it immediately. You know, these sort of things turn around bit by bit. The strategies have to be commenced ASAP.

MR COSGROVE: But so far as the tariff is concerned you referred to the APEC commitment of Australia 2010. Does the association have a view on whether or not there should be any further tariff change before then?

MR RADDA: The association's position is that it should stay as it is; that we should meet our commitment up to 2010.

MR WOODS: So if there was, prior to that, reduction in textile tariffs, you would not be wanting or not be willing to also have a reduction in your tariffs to reflect that?

MR RADDA: Our position would be, really, because of the special impost our industry suffers because of the textile tariffs, it probably should have been a raising of tariffs for this industry to compensate for the negative assistance we suffer currently. So we're working under an impost already; because the impost was removed we wouldn't say take off the 5 per cent. I mean, if you scratch too deeply on this one the general position would be until the textile tariffs become equitable, furniture industry tariffs - because we're specifically penalised - should actually go back up to compensate. I provided you some sort of calculation work sheets to show the level of that so it gave you an understanding on a major product which - like a number 1 thing in retail is the sofa or the lounge. I gave you the costing sheets and the way you work out the level of the impost, basically.

MR COSGROVE: Yes, well, as you know, the commission would have liked to see the textile tariff lowered faster than it is being, but that's a matter for the future now. You've described to us, Mike, this industry action agenda. We've seen over the decades a number of rather similar efforts by Australian governments to seek to improve the efficiency of various sectors through the intervention of steel, motor vehicles, textile, clothing and footwear. They've had mixed success, I think it would be fair to say, at best. What is it about your particular area of activity that makes you think this is more likely to be successful?

MR RADDA: Well, on the positive side you did say they had mixed success so we're hoping we align ourselves with the positive end of that mixed success spectrum. So that's one element. The second element is that there has been a bit of a culture change going through this 18-month period of review in terms of analysing where the industry is at, so that issue that we discussed before about an individual company having a perspective on what it needs to do tomorrow to get orders, as opposed to what an industry perspective is, has also filtered through. So companies are seeing themselves more as an element of the industry and therefore needing to take steps within the industry than was the case for us before.

I guess third is the realisation with the pressure that we've experienced against imports. The whole change in trade at the moment makes that a major focus for many companies. It leads to a general realisation that if changes aren't implemented there probably won't be much of an industry by 2010. That also comes back to the question you asked about the association's position on tariffs in say 2010. Our position largely is if we haven't achieved some of these targets by 2010 it probably doesn't matter what you do with tariffs then so we'll stick to the commitment.

MR WOODS: Can I pick up that bit about industry structure, and you made the point, and I think quite interesting, about the large number of small firms and the fact that their employment is declining in terms of average employees. Does that suggest that the industry is moving away from the high volume low value type product into more niche areas, and in fact in those may not there be a sort of market specialisation that to some extent protects you from imports for the way the industry is heading; that you're moving away from the very large runs of standard product that get sold cheaply in the big retailers?

MR RADDA: No. That was our belief say 10 years ago but what's actually happening is that the furniture industry, like many others, is changing the way it uses production technology. So we're losing that essence of low value, high turnover commodities where all sectors high in middle end, low end, all price points are now under pressure. Because of mechanisation and other issues the low value end is perhaps to some extent less under a threat than it used to be. It used to be if you could access really, really cheap labour in our industry that was the area under pressure, but if you had the skills and the training you were sort of secure and up in it. That's not the case any more. The largest producer of leather lounges is in Italy. They have retail outlets in Australia now. Those sorts of things just didn't happen in the past. There's a whole culture change happening in production and I suspect right across manufacturing in that sort of issue.

We're also finding that our major competition probably across the board comes from South-East Asia. Their skill level has increased significantly over the last 10 years and they're targeting all sectors. So they're no longer focusing just on perhaps the low value or the high volume end. They're focusing on all spectrums themselves.

MR WOODS: Are you trying to compete therefore across all parts of the spectrum or are you identifying the Australian industry as picking up particular areas?

MR RADDA: There are some areas where we are more competitive and they're some of our primary focus areas and I mentioned before the issue of utilising raw materials like the native hardwoods in those sorts of areas. In those we should have a competitive advantage.

MR COSGROVE: What is it that the plan, the industry action plan, actually seeks to do at the enterprise level? I'm conscious from a previous job I had in Washington that an Australian furniture manufacturer beat quite tough international competition to win a contract to supply new sets of office furniture to the World Bank. Now, that firm would seem to be - I'm talking now about a period perhaps close to eight or 10 years ago - capable already of performing well internationally, so are there lots of other inefficient producers within the sector?

MR RADDA: There are companies that are world competitive, and there's a range of them. However, they're in the minority. And what we're trying to do at the individual enterprise level is change the culture so that the types of culture that you - - -

MR COSGROVE: How do you do that?

MR RADDA: Well, it's through a range of programs, I guess. It's by getting out an awareness that we need to export, we need to set targets and work towards them. We need to offer programs so people can actually pick up management skills and manufacturing skills at the individual level. They're not available at the moment. If you're in the furniture industry there isn't a training program that you can pick up that specialised say on process and production skills.

MR WOODS: So you haven't got an ITAB structure?

MR RADDA: We have, but all of those things currently are quite traditional and focused on trade skills. So that's really where our issues come in. There's two primary issues at the enterprise level. One is to focus on management production type issues, because that's what we are - we are manufacturers - and the craft level has to become less important. Secondly, we have to focus on supply issues through things like supply term management, and to pick up that sort of culture at the enterprise level. So it's primarily those two issues.

But, to respond to your question again, there are a number of companies that are world competitive already. I mean, there are a number of examples of the furniture industry being successful on the world scale. We supplied the seating to the Atlanta Stadium in the Olympics. You mentioned the World Bank. We have export success in Japan. The issue isn't that there's an absence of success. The issue is that there isn't enough success. So if you have a look in the export figures, we are exporting and we are increasing our exports. The issue is we have to have a bigger focus on that and get a bigger increase.

MR WOODS: Sure.

MR COSGROVE: Just coming back to the important point I think you made about negative assistance, Mike, because of the high textiles tariff - we realise of course that the government took a decision on that matter a couple of years ago - has the association pursued that difficulty in any other way since then?

MR RADDA: Perhaps it's best to say it's a difficult issue to get some ground on. I'll leave it at that.

MR COSGROVE: Okay. I have some points of detail, Mike might have some others, but let me just ask you a few for our own edification. I was looking in the submission for a feeling of how many businesses there are in furniture manufacturing and, based on some information on page 2 of the executive summary of the analytical appendix, I came to a figure of something like 10,750. Is that somewhere near the mark? I was simply dividing the number of people in manufacturing by the average number of employees per - - -

MR RADDA: Yes, it is. For instance, we're doing GST seminars at the moment and we've mailed out to more companies than that. There's some on the fringe. So individual companies that we've mailed out to would go above that. That gives us even more confidence in some of the figures because we've done the research to actually access who all the individual companies are out there and we've got a higher number than that.

MR COSGROVE: Does the industry action plan seek to encourage any rationalisation of the numbers of manufacturers?

MR RADDA: It seeks to promote different arrangements, either those companies that are larger and have the capacity, or networks and clusters. So we've got a heavy emphasis at the moment on clustering of companies so that either one of those two strategies will be important for our future, so either large companies that are able to work in that and supply, or those that work in a clustering arrangement.

MR COSGROVE: Okay.

MR WOODS: Just on the company distribution, is there any particular regional differentiation or emphasis in where your companies are located or are they just at the major market end?

MR RADDA: There's certainly a concentration in the three eastern capital cities, Melbourne and Sydney being the largest, but because there are a lot of small companies there is a spread throughout regional Australia as well. But I think from what we understand, about 15 per cent of the companies are in regional Australia. The rest are concentrated around the capital cities.

MR COSGROVE: Could you tell us a little about the long-term trend in employment. There is a table, table 2, in the appendix which shows a surprisingly large rise in manufacturing employment in the year 1997-98. It's risen from 73,000 to about 82,000. But what's been happening say over the decade that just ended, do you know? Again this gets back to the problems you were raising with the statistics, I suppose.

MR RADDA: Some of this gets a little bit back to the ABS data. We come back and they often review past data, and so our trends will change. So rather than look at the specifics, to look at the general there has been a growth in the industry across the board - a general trend - and that's basically on the back of strong economic demand at the moment.

MR WOODS: Is that affecting any particular sectors? Is the growth right across your product range or is it picking up - - -

MR RADDA: It's generally across the range. It's in the commercial sector, it's in the domestic sector, it's in each of the individual domestic sectors. So it is largely across the board. There are variances but, like I said, to analyse those in some detail gets to be a little bit difficult, given some of the standard errors that we have to deal with.

MR COSGROVE: I'm not sure whether you can help me on this next question but I was wondering if there's a little inconsistency between two pieces of information relating to productivity trends in the industry. There's table 5, which is on page 9, showing a decreasing trend in value adding per employee in Australia, as well as the actual level being low, but when you get to page 11, table 8 there shows an annual productivity increase - a current rate of productivity growth of just over 1 per cent. Are those two things reconcilable?

MR RADDA: That's again a bit of a difficulty. The data that we've got from table 5 comes from OECD data and it's over a much longer period. So there's two issues:

one, they're from different data sources.

MR COSGROVE: I see.

MR RADDA: But the other one here - this trend is over a much longer period. It's over a 10-year period. So if you pick the total period from 84 to 94 there's been a general decrease. However, if you look at the most recent period to the last couple of years - - -

MR COSGROVE: So what does current mean in the - - -

MR RADDA: Well, I guess what I've done here - we've just focused here on where the industry is trending at the moment.

MR COSGROVE: So the last year or so?

MR RADDA: So really you've got a graph that's been going like that.

MR COSGROVE: Yes, I see.

MR RADDA: And so the net trend has been decreasing - - -

MR COSGROVE: Okay, I get you. Thank you.

MR RADDA: - - - which has been a concern for us, obviously, but the pleasing aspect of that is that in the last couple of years we've actually started to head back up into an increase. So that's how those - - -

MR COSGROVE: Okay. Thank you. What would you say to a person who was arguing that customers of Australian furniture makers should not continue to be asked to pay the 5 per cent additional cost of those products for say another 10 years or thereabouts?

MR RADDA: I guess my answer to that is twofold. First and foremost, that's only a short-term aspect because if the worst possible scenario occurs and you get a short-term 5 per cent benefit but you lose your Australian production, the market force trends in terms of the long term will change again because the importers won't have to compete so much with local producers.

MR COSGROVE: But they would still be competing amongst themselves.

MR RADDA: Sure, but there's certain issues. They will never have to compete with you if there's no local industry, and they're supply issues, turnaround times, issues that you can never get from an import that you can get from a local with our product range. If you buy a lot of things you buy specials and variances, so what's tended to happen - it comes back to that question before - is what niches and what sectors of the industry focus on. Because the nature of the product is you go for a lot of individual specialisation, if you don't have an Australian supply base you actually lose some of those advantages. At the end of the day you've got to get it over the water or fly it, and if you say, "I want that in this upholstery," you'll lose that.

My best example I guess in evidence of that is our bedding sector, and mattresses I'm talking about specifically. Our bedding sector has very few, if any, imports, and it's because many of those culture changes you were asking about they've actually implemented. If you wish to buy a mattress you can get it in 24 to 48 hours, you can get the size, the colours, whatever. You can't import against that effectively because of the efficiencies and the way that sector is operated. If you lose that Australian supply base you lose that customer benefit - - -

MR COSGROVE: So there's a kind of a natural advantage, you're saying, available to domestic producers.

MR RADDA: Well, there's more benefit to consumers than just say minor price differentials.

MR COSGROVE: Yes.

MR RADDA: So first and foremost there's the assumption that the retail price point will come down - and maybe it will, maybe it won't, over some time. But the second thing is that there's more than just a price advantage in terms of what customers get out of products. One of the things that I think is accepted generally now is that consumers are looking for more than just price - service, other elements - and I think when you lose your Australian supply base you lose the capacity to provide customers some of those aspects.

MR COSGROVE: But if customers are looking for aspects of service other than price, that suggests that demand is not especially closely related to price, which again has some implications for the level of the tariff, doesn't it?

MR RADDA: You'll have to repeat that question. I missed it.

MR COSGROVE: What you seem to be saying is that price is only one determinant of consumer demand and that they're also interested in being able to get things quickly and in wide ranges of stylings, perhaps those sorts of things.

MR RADDA: Yes.

MR COSGROVE: So my question then becomes: how important is the price assistance provided by the 5 per cent tariff in terms of the overall demand for your production - - -

MR RADDA: Well, I guess the answer is it's very important, based on current pressures from imports. So if you've got an industry that has low profit - I mean, you've got to look at what the net profit for the furniture industry is, and it's quite low, and you look at the growth that's in imports. While it's only one of the considerations a consumer will make, it is an issue that - that one issue will have an impact on the industry. And, I mean, it's the growth in imports, it's the way that nexus is interrelating at the moment that brings that back to that.

MR WOODS: Just picking that up a little further, though, you also cast doubt on whether, if there was a removal of the tariff or a reduction to zero, there would be a matching reduction in price. You seem to suggest that maybe it would, maybe it wouldn't - I think was the phrasing you used. If there wasn't a similar reduction in price, does that suggest again that the impact of a 5 per cent reduction on your industry may not be as complete?

MR RADDA: I wish that was the case but I think the bartering arrangements that happen between buyers and sellers would indicate otherwise. I'm talking at two ends of the spectrum. At the end of the day, if you're trying to supply a product, you have to meet the prices that other people are paying. What an individual company does in terms of its profit structure, what prices it sells at, is a separate issue. They relate but they're not like a piece of string: you pull this end and the other end goes that way.

MR COSGROVE: Yes. I guess what we're still having difficulty grasping, Mike, is that if one takes these OECD productivity figures as having some relevance, then it would seem there is very substantial scope for our industry to raise its efficiency and profitability - - -

MR RADDA: Yes.

MR COSGROVE: - - - on a scale which would seem to make the level of assistance provided by a 5 per cent tariff relatively unimportant, to put it mildly.

MR RADDA: In the long term I'd have to agree - - -

MR COSGROVE: We're half the level of productivity of the most productive countries, according to this table.

MR RADDA: And I guess I tried to summarise that in - I see the same figures but come to a different conclusion, because for me it's an issue of timing. If it happened now for instance, looking at that table, that's a catastrophe. If the industry has made those significant productivity changes, it's a non-event, and that's why our general conclusion is it's hard to pick when that change will actually occur and when it will become a non-issue. Now, we've made a commitment to 2010, so our commitment has been, well, okay, we've made that commitment. We have to work within that time frame to make sure that by that time it's not going to have the impact. For us to come back and say, "Look, in seven and a half years it will be okay," it's a non-issue.

The conclusion you've drawn is largely what the government has drawn; that there is scope for a significant improvement in this industry. It is an industry worth working on because it has that potential. Like you said, mixed success has been the experience of many strategies, but for the figures that we have got there, there is an indication that this is an industry with potential to make significant changes. So I can't write it on stone and hand it out in tablets, but the issue is that there is the potential to make those changes. Some time is needed, I am unable to say how much time exactly, but there is a general acceptance that within 10 years, if we haven't made the changes, it's too late. We are starting on them immediately, so within that time frame it seems we've made a commitment to that. We are attempting to realise the potential immediately, but that will take some time. To be more specific than that I think starts to become a concern for me in terms of what sort of numbers I'm actually coming up with and putting, because that's what you're now asking me.

MR WOODS: Although you have acknowledged that over the last few years in fact you are getting an increase in productivity.

MR RADDA: We have, yes. The OEC data I think is 1984 to 94.

MR WOODS: That's right.

MR RADDA: In recent years we actually have started to trend upwards.

MR WOODS: So there's already some scope appearing.

MR RADDA: Yes. There's definitely been a change already. If you look at our export data, I'm not sure exactly but about eight years ago we were hardly exporting. There was almost coincidental exports of 20 to 30 million. Most of it was New Zealand. The last couple of years have been a bit tough because of some of the Japanese markets and things, but we're now up in the order of well over 100 million. Over that period there's been significant growth. Some of these things that we're talking about in terms of changing around and realising their potential are actually already occurring. So that gives us, I guess, further confidence that we're on the right track.

MR COSGROVE: Although of course to close the gap against your competitors - - -

MR RADDA: We're having to rush.

MR COSGROVE: - - - you have to improve productivity faster than they are, because I assume they're still improving productivity in the medium term at least.

MR RADDA: Yes.

MR COSGROVE: I think that's all we have in the way of questions. Thanks very much for coming along, Mike.

MR COSGROVE: Our next participant is Plastic Products from South Australia. For the purpose of our transcript recording, would you please identify yourself and the capacity in which you're appearing today.

MR LEAHY: Peter Leahy, managing director, Plastic Products in Adelaide.

MR COSGROVE: Thank you, Peter, and thank you also for giving us a submission already, which of course we've read. Is there anything you wanted to particularly draw to our attention?

MR LEAHY: No - just that we're paying duty on material that's no longer manufactured in Australia. It's costing us about $20,000 a year. Our industry has sort of contracted over the last 10 years, and we're under significant cost pressures obviously in the auto industry, and any cost reductions we can achieve obviously are going to help us stay in business because our employment over the last eight or nine years for a small company like ours has dropped from about 55 down to about 30 people. Our customers do export, so anything we can do to help them is what we're after.

MR COSGROVE: What type of products do you actually make with these compounds?

MR LEAHY: As I said, bakelite is one of the oldest materials. We make components for the electricity meter industry, people like Siemens. We make gas meter parts for EmailGas. We make automotive ashtrays for General Motors, but we're a second, third-tier supplier. We make cookware components - saucepan handles, frypan handles, heat-resistant articles of that nature.

MR COSGROVE: Do any of those products receive tariff assistance, or are you competing - - -

MR LEAHY: Yes, they do. I think some of them receive 5 per cent. Also in the cookware business, we're up against Italian manufacturers of saucepan handles. They have moved into our market here. They get 5 per cent. They're very automated factories. They have a huge market in Europe, and we have lost a lot of business in that area over the last 10 years; besides, the cookware industry itself has shrunk from about eight or 10 manufacturers down to about one or two now. So our markets have diminished in that area and we have moved into the metering area. We also do a lot of work for Schlumberger, who are water meter and gas meter manufacturers.

MR COSGROVE: The tariff I think on all of those products has been at 5 per cent now since 96. Has there been any stabilisation of market shares during that period? I'm asking that question against the background of a steady decline in the tariff on imports over the previous eight or 10 years.

MR LEAHY: I think some of our customers have lost market share obviously by the reduction in orders on us. They've lost market share to importers. That's fairly obvious by the amount of orders they're placing on us and by generally talking to them.

MR WOODS: The focus of your submission is more to remove the duty on the moulding compound.

MR LEAHY: Correct.

MR WOODS: And you're less concerned about the benefit of the tariff against the products that you're competing with.

MR LEAHY: Yes - just the raw material. As I said, there were three manufacturers in Australia and one by one they've closed their plants here, and the last plant closure was in September 98.

MR WOODS: Were you in fact utilising local producers though, or were you finding that the imports were providing you with the quantity and quality and price that you were looking for?

MR LEAHY: Absolutely correct. The local material, the quality wasn't there, they didn't have the volume. I mean I've been to a similar plant in America up at Cheboygan, a 30,000 tonne a year plant; just amazing. A plant here with 3000 tonnes, they didn't spend money on it. Their compounds and their quality was poor, and this material cannot be reused, so once you actually make a product out of it, it's a reject. About 90 per cent of the plastics that are used - polypropylene, nylons and these type of materials - rejects can be regranulated and reused, and the plant here really became very run-down and the alternative for us if we were to stay in business was to source from overseas. The quality was better and the price was better, so that's what happened over the last 20 years. As I said, there were three plants here. They've closed, one by one.

MR WOODS: You make reference to the nuisance tariff review of the department, and in a succinct statement you say, "However, that was not the case." Any reasoning that you're aware of as to why it didn't get picked up in that process?

MR LEAHY: No, I don't know. Some of the importers thought it would have been - who are importing the raw material now; they thought it would have been - but I was in contact with them and they had no idea why it wasn't picked up. No, I don't know.

MR WOODS: It just didn't pop up on the list.

MR LEAHY: No. We were hoping it would, obviously. We were reasonably confident it would, but it didn't happen.

MR COSGROVE: Is there any reason why you didn't seek earlier to have this tariff of 3 per cent removed, given that, from what you were saying earlier, you were already using imported rather than local suppliers?

MR LEAHY: No, not really. I haven't got a reason for that. I was still using local material. We were buying about 85 or 90 per cent overseas, 10 per cent local. On the speciality material that we were buying from America, we did have - I can't remember what it was; a few years ago - the tariff reduced because a local supplier couldn't make that material. The base material was the same, but it had some additives to give it fixing properties, and we were successful there in having the tariff reduced. But I guess in hindsight I should have done it before, yes.

MR WOODS: Is this an industry - putting aside your particular company for one moment; we're looking across yourself and your fellow manufacturers - in Australia that is expanding or is it - - -

MR LEAHY: No. The amount of material used I think is down to about 500 tonnes. I think a few years ago it was 2 or 3 thousand tonnes. The cookware industry was a big user of this type of material for non-stick frypan handles, and they all seem to come in from overseas now. So that was a big user. A lot of the manufacturers themselves have moved offshore. Breville was one that was making snack-up toasters out of this material, and that particular type of business has moved off to the Philippines, so gradually a lot of the companies who use this type of material as an end product in their products have moved offshore or having them made overseas.

MR COSGROVE: Why is that, do you think?

MR LEAHY: Cost, I guess.

MR COSGROVE: Do labour costs figure significantly?

MR LEAHY: I think so, yes.

MR WOODS: I notice lawn bowls was in your list there of products.

MR LEAHY: Yes.

MR WOODS: Are you actually a manufacturer of such?

MR LEAHY: No.

MR WOODS: Or is it just one of the products that comes from - - -

MR LEAHY: No, lawn bowls are manufactured in Melbourne by Henselite, but that is an example of a material that is used.

MR WOODS: I think that's it.

MR LEAHY: Thank you very much.

MR COSGROVE: Thank you for your interest in this inquiry. We had planned to take a short break for morning tea at this point.

MR COSGROVE: Our next participant is Henselite Australia. Would you please come forward. Please identify yourself for our recording, Bruce.

MR HENSELL: Yes, Bruce Hensell is my name, managing director of Henselite Australia.

MR COSGROVE: Thank you.

MR HENSELL: I apologise for not making a submission to you, sir, but I only found out - or got the application forms on Monday, so I do apologise for that.

MR COSGROVE: That's fine, we can cope.

MR HENSELL: We're a fourth generation family business. We've been going in Australia since 1930. We manufacture the Henselite lawn bowls. My father, in 1930 in fact, perfected the moulding of a composition bowl which actually revolutionised the sport. We had been involved with a company then called Elliott Bros which ultimately became Huntsmen, and so for our 70-year history we have 100 per cent purchased, made in Australia material until the company closed up in late 1998.

MR COSGROVE: Yes.

MR HENSELL: Subsequently we now have to import our raw material. As a manufacturer some 60 per cent of our business is export and our opposition - be it that we are the only bowls manufacturer outside the United Kingdom; there are two others in the United Kingdom - we are suffering considerably now having to purchase imported material and our concern is the 3 per cent duty. As you've been told there is no alternative material or supplier in Australia and we've been forced to import, but because a bowl is so heavy - we use about four and a half kilos of material in every set of bowls - the powder content is obviously a very critical part of our total costs. The duty factor is one factor which is obviously making it awkward for us. We employ currently 45 people in Australia but we have seen a considerable reduction in our exports because of our costings in the recent period of time, which is concerning.

I would like to point out that the product we manufacture lasts a lifetime so it's not an expendable item. It is unusual in that sense. It's unusual in the manufacturing - we've had to develop our own machinery so we are very much a one-off industry. The raw material is what the product is primarily and our concern is our costs and competing against UK manufacturers.

MR COSGROVE: Do the UK products enter Australia duty-free or do they face a tariff as well?

MR HENSELL: No, there is a tariff on those.

MR COSGROVE: 5 per cent.

MR HENSELL: Yes, 5 per cent.

MR COSGROVE: Okay. How much, in terms of dollar value, do your imported components now make up? Can you tell us?

MR HENSELL: We're looking at about 180,000 kilos of material - sorry, I haven't got a figure. I can't relate - - -

MR COSGROVE: I was asking the question with a view to seeing whether it would have fitted within the category of nuisance tariffs with which the government recently dealt to some extent; that is relatively - - -

MR HENSELL: I, like the previous speaker, was of the same opinion when we'd heard of that. That was where I thought this was going to head. But we also were disappointed and surprised that it wasn't clarified at the time.

MR COSGROVE: Was your imported input at any stage in the list of items which were intended to be treated as a nuisance tariff with the duty abolished? Do you know?

MR HENSELL: I can't honestly tell you. Having purchased and been 100 per cent Australian buyer of the raw material I must honestly say I haven't got involved in the overseas scene until relatively recently because we had large stocks of the original Australian material and we've been in the changeover process. It's only in the last few months that we've had to think bigger and broader, but because our material is very specialised - very specialised - there was a necessity to keep our eggs in one basket. Yes, there was a commercial risk, but it paid off for 70 years. It has now backfired and we have to live with that, of course.

MR COSGROVE: Where do these imports come from?

MR HENSELL: The UK.

MR WOODS: So you're saying there are three producers that, in terms of product - - -

MR HENSELL: No, there's two - we have a factory in the UK, but there are two other manufacturers in the UK. There are only four bowls manufacturers - three companies in fact - that produce the world market of lawn bowls.

MR WOODS: The product that you use for it, is that also - - -

MR HENSELL: It comes from the UK and we all have to get - we now all get from one source over there. That's one of my problems. I'm at a purchasing price disadvantage obviously because of freight, but also because of the duty. So we have one manufacturer in the world that makes all the material for every manufacturer - or for the four of us - and because it's highly specialised, that's the necessities of life, but we're at this disadvantage. We acknowledge the freight aspects, but we do have this 3 per cent hanging over our shoulders which we'd dearly love to get rid of.

MR COSGROVE: Does the cost of freight for what, as you said, is a relatively heavy item provide some degree of natural advantage for you in the Australian and maybe New Zealand markets?

MR HENSELL: We then need to go deeper then into how the bowls are made, etcetera, and qualities, etcetera, which affects pricing. We, as a company, at one stage had about 80 per cent of the world market of lawn bowls from Australia. In fact we were the first company in Victoria to have won three export awards, so we've done a reasonably successful job over 70 years in the marketplace. But for a number of reasons our market has certainly diminished and cost pressures are a problem because we deal primarily with people of an average age group of say around about 55 years to 60 years of age. A lot of them are retired, on fixed incomes, they have low interest rates, they are really feeling the pinch. We hear other sides of the industry. We also see pictures of younger people playing bowls, but the net result is the number of bowlers in the world is diminishing because we have a fairly high death rate as opposed to an intake, albeit on television you see the younger people playing the sport.

MR COSGROVE: So the total market is declining now.

MR HENSELL: Definitely there has been a decline. I think that will turn around. I think we've had good years in all honesty. Bowls has had a positive - in terms of numbers - as a very social sort of sport, but we've got more competition with other forms of sport today and the industry, the bowling associations, have not been marketers, they've been there as badge collectors and interested in the sport of physically playing it and not marketing it. We're going through a transitional change and there are signs worldwide that they are now starting to market the sport which will give it some turnaround help.

MR WOODS: It's certainly in your interests, isn't it, to have the sport strongly marketed?

MR HENSELL: It is. We, as a company, are not only involved in the manufacturing of the bowls, we supply everything for a bowler, from the head to the toe, to the synthetic bowling green to the equipment he maintains the greens with. But all of this relates down to the core business of the manufacturing of the bowls. That's all cream on the cake to our basic core business which is what is of real concern to us, because that is our foundation.

MR WOODS: What's your market share at the moment? You're talking about "used to be" about - - -

MR HENSELL: I would say probably around about 70. We're a little bit fortunate that half the bowlers in the world are in Australia in terms of registrations, albeit our exporting quantity is greater because in the UK they play indoor bowls so they play all the year round and we have two types of people play the sport. So we get a bit of a doubling up.

MR COSGROVE: If I've understood you correctly you've been losing share of the Australian market. Are you making any offsetting gains in export markets yourselves?

MR HENSELL: No, our biggest problem is in our export. The biggest problem is in the export market because our bowls are a lot dearer getting them back into the United Kingdom, where our main competition is, and the market is Australia number 1, the UK number 2, South Africa and New Zealand - and although there are 34 countries which play the sport they are very, very small. They are the four main ones but the UK and Australia are the two biggest markets. Our problem is getting our product back into the UK competitively.

MR WOODS: So you're purchasing the raw material from the UK, coming over here, manufacturing it and - - -

MR HENSELL: Raw material from the UK, bringing it here and having to send it back.

MR WOODS: Yes, a challenge. Your submission focuses on removing the tariff on the imported raw materials but you haven't made a point about the 5 per cent tariff on competing product coming in, manufactured - ie the bowls. Is that not what you see as a significant issue?

MR HENSELL: No, but I would have thought that we're entitled to some protection, being an Australian manufacturer. We had a higher protection years ago and I acknowledge the principles of what they've done but I think we're an Australian - we have to pay duty on the products that we send to the UK, so I don't see there's any difference there.

MR COSGROVE: What about the interests of your lawn bowlers? Maybe if the price of bowls was lowered the level of interest in the sport might grow and you might end up producing more.

MR HENSELL: It would be fair to say I would have to support that if the price of the bowls was lower, yes, but it comes back to what are tariffs all about? You know, does Australia want a local industry or do they not? I mean, I have a factory in Scotland now, albeit for a special purpose. I could just as easily close the doors here and produce - I don't want to do that. That's not what I'm about. I think that's what I was led to believe tariff protection was originally and primarily about - was to support local industry. The balance of what it should be is an open question, but I don't think it's right or fair or justifiable that we should put up with the problems of labour costs and all the rest that we have in Australia, to be good Australians to support our industry, and our opposition can come in free. I don't think that's right or proper.

MR COSGROVE: But they come in at the 5 per cent tariff at present. Of course what tariffs do is support particular industries.

MR HENSELL: I could do the same. I could close our business down here and bring them in from our factory also and do the same thing. But that puts 45 people out of business, for a start.

MR COSGROVE: But it may put 45 other people into a job because the people who have been paying the additional 5 per cent for the lawn bowls - either that you produce or companies from the UK - will now have more money in their pocket which they could spend on other things.

MR HENSELL: A theoretical argument, I agree, yes.

MR COSGROVE: No, it's more than theoretical, I think.

MR HENSELL: The point is we, on the other hand, send our product to the United Kingdom and we have to pay duty on our product going in, which is protecting them.

MR COSGROVE: Yes.

MR WOODS: What's their current rate?

MR HENSELL: I think it's five, yes. So in the finished product sense I think we're on equal grounds - in that sense.

MR WOODS: Yes.

MR HENSELL: But my interest is being an Australian manufacturer to be world competitive in the market in our business and that's my concern relative to the duty that we're paying on the raw material. We see it specifically now because we've never ever allowed for that in the past because we bought locally.

MR WOODS: Is there an opportunity for other suppliers to enter into the market and supply to you, or is it just - - -

MR HENSELL: Raw materials are you referring to?

MR WOODS: Yes, the raw materials.

MR HENSELL: Once again, because we're a very - the previous gentleman wanted to talk about a lot of components, most of them are fairly thin. We produce something which is very large. Now, in a plastic sense that is a very big achievement; to produce an article some five-odd inches in diameter and it requires a lot of specifics. Bear in mind most articles are moulded, they have a flash removed, it goes through an assembly and that's it. In the case of a bowl, we mould it and that only is a casting. We machine it with diamond-tipped tools, we have to sand it, we have to polish it. It has to be UV stable, it has to be - there are a lot of technical factors and hence that is why we can't get manufacturers to make this material for us, because in a world market sense our tonnage is not huge, but conversely it is highly specialised and we have some 16 grades of raw material that we need because bowls have got to be of different weights, etcetera. Therefore we need different grades of material to be able to produce the sizes and weights that are required. So we get into a - - -

MR WOODS: Yes, you're talking short runs of highly specialised - - -

MR HENSELL: That is correct. That's why there is not - it wouldn't justify another manufacturer in all honesty. From our point of view - commercially it's not good because now all the bowls manufacturers buy from one and that's not healthy in the long term. At the moment things are all right but it is of concern. That's another issue.

MR COSGROVE: So you've got a global monopoly here on the raw material. Do you have any evidence that that is reflected in excessive profits on the part of the maker of that raw material?

MR HENSELL: No, I must say the company in question is a small company and they are very, very professional. They're very honest. It's a family business, too, and we have seen no evidence of that - albeit we're only in the first nine months' process of buying from them. They don't know that we're buying exclusively - that we're buying all our materials at this point of time. But it commercially could be a problem. At the end of the day we're still buying the material into Australia dearer by the nature of the duty.

MR COSGROVE: Yes. Fine, thanks very much, Bruce, for your interest in the inquiry.

MR HENSELL: Thank you.

MR COSGROVE: Laminex Industries is our next participant.

MR EDWARDS: Good morning.

MR COSGROVE: Good morning. Would you for the purpose of our transcript please identify yourself and the reason why you're here today.

MR EDWARDS: Certainly. My name is David Edwards. I'm the general manager of sales and marketing for Laminex Industries Pty Ltd. We're here today with the opportunity of being able to state the case for an Australian middle-sized manufacturing vertically integrated organisation.

MR COSGROVE: Thank you, David, and again I thank you for the extensive submission which you have provided to us.

MR EDWARDS: Thank you.

MR COSGROVE: We have had a chance of course to read it during the course of the past 24 hours, but before I and my colleague ask you questions about it, is there anything in particular you wanted to say to us initially?

MR EDWARDS: Yes, certainly. We're here with great interest and some trepidation, I suppose, in terms of the opportunity of stating the case for an Australian manufacturer in an industry which is inundated with import product and the mere fact that we are a vertically integrated organisation with a high capital investment not only in plants but also in a substantial distribution network to provide that product out into the Australian marketplace, and the high-pressure laminate part of the business is substantially the core and heart and the beginning of the industry - or our industry - so this is an opportunity of being able to present a perspective from this side.

MR COSGROVE: Okay. You have made quite a point in the submission about the undesirability of further reductions in the Australian output tariff in circumstances when your competitors overseas might not be doing the same. In other words, we should wait until they too bring tariffs on these products down. This is a point which has been raised in a number of written submissions which we have received already but, as we think about it, it seems to raise significant practical issues. I don't know whether you've considered how one would actually implement such a policy. Would it be product by product, country by country, or both, or some other basis? Stated simply, it sounds simple, but in terms of how one would actually operate a policy of reciprocity even at the level of a single industry doesn't seem very clear to me. Could you help us on that?

MR EDWARDS: There's a little difficulty in probably stating out a clear policy. It's one that we have battled with ourselves. Certainly from the point of view of the industry, whether it be the high-pressure laminate industry in particular - that is a global industry per se. Our competitors, the people that do import or importers that do come into Australia, are from all parts of the world: South-East Asia as well as

Europe, as well as one of our major competitors being America. We see the opportunity perhaps on the category itself, the high-pressure laminate, in the sense of a product category if you will, because of the sheer nature of the global industry I suppose.

MR COSGROVE: Yes. I'm just flipping the pages. Does the submission provide information - well, there's a little I see here in terms of - no, that's not quite what I'm looking for. What I'm looking for is information on the levels of tariff in countries with whom you are competing. I'm not finding it at the moment. It may not be there.

MR EDWARDS: No.

MR COSGROVE: What I have in mind is that you might have a structure of tariffs among your competing countries which varies from, let's say, zero in Singapore, Hong Kong, countries of that type, through maybe 3 or 4 per cent in one or two other countries and then getting up into the tens, twenties, perhaps thirties for all I know, in some of the typically less developed countries.

MR EDWARDS: Yes.

MR COSGROVE: So it's against that complicated structure of tariffs that I wonder how you would actually apply reciprocity. Do you wait until the country with the highest tariff gets down to ours before we consider moving again, or do you take an average of those varied tariffs and say, "Okay, when that average gets to 5 we're prepared to move again, even though some of our competitors might still have tariffs of let's say 20 per cent"? Do you see what I'm driving at?

MR EDWARDS: I do understand. There's perhaps one other issue that could be introduced at this time that might provide some clarity. To be absolutely blunt, there are aspects of dumping of product, which is probably our biggest concern, and we certainly from the point of view of understanding our competitors within the marketplace do have a finer appreciation for those who we believe are taking a responsible attitude in the Australian market, those people that are not only bringing product into the country but are establishing appropriate forms of support, guarantee, distribution, and that's a responsible form of competition which we in the industry must be prepared to accept.

It's the situation where there is a dumping of product where it's specifically importing product, warehousing product and looking for and sighting major job lots and providing large quantities of the product without support but directly to end user. That is a concern for us because it does place threats not only on our ability to be able to manage our own economic situation in terms of manufacturing but also a substantial outlay in terms of the distribution networks, which we feel is an important part of the total value proposition that we offer to the Australian public as well.

MR COSGROVE: This is not really an inquiry into antidumping, but have you pursued cases against alleged dumping by foreign countries?

MR EDWARDS: Our inquiries to date - we also need to work in conjunction with some good advice, some legal advice, on what is the nature of our primary focus within business and, within a difficult marketplace, we prefer to see ourselves as being proactive and endeavouring to address that situation in terms of the impact on our market share with a more proactive approach to our customers as opposed to necessarily following a legal course of action. So, no, we haven't actually progressed that.

MR COSGROVE: My second question relates a little to what you've just been covering, and that is the employment situation. What do you see is the outlook for employment in your area of activity? I can see that if you distinguish between actual manufacturing employees and those, as you were saying a moment ago, who are engaged in the marketing - to use a simple term - part of the industry, then there could be some difference, because whether one is supplying the domestic market or indeed the foreign markets from Australian production or from imported supplies, there's always going to be a need to market that product. So that particular group of employment is likely to have a better, more stable future than perhaps the manufacturing employees, who might come under greater pressure if tariffs were less than they now are. Is that a reasonable way of viewing it?

MR EDWARDS: Yes.

MR COSGROVE: But that's sort of a conceptual view.

MR EDWARDS: Okay.

MR COSGROVE: I would also be interested in what you see is the trend perhaps - you know, recent trends and prospective trends in your own labour force.

MR EDWARDS: Yes, certainly. Like any organisation that wishes to remain at the forefront - and we are the market leader within the high-pressure laminate business, with a long history, some 65 years in the Australian marketplace. We have a split, if you like, between the 1100 or so employees that we have on our books of around about, as per the submission, just under 500 within the manufacturing arm of the business and around about 200 within what we'd call the sales and distribution or marketing arm, and then the balance in support functions within the business as well.

Whilst it may be a fair assumption to assume that the area most at risk might be within the manufacturing arm of the business in terms of employment, the sales and distribution network is actually quite a large cost to the business, but within our value proposition we are certainly not the cheapest of product in the marketplace and, as a result, there are costs that we need to absorb, such as some 37 branches with 170 staff.

Now, one of the beauties of being an Australian manufacturer I suppose is the flexibility and the ability to meet lead times, and even customisation of product for our customers. If the situation was to impact, especially in the high-pressure laminate market - which at the moment is a static market, one that is not growing - and it becomes a matter of trading off market shares, the efficiencies which we depend upon, coming also out of the efficiencies from manufacture itself, which supports the profitability of the total product - means that any efficiency losses in terms of profit dollars to us in the organisation would have a direct impact on our ability to maintain the current distribution network and the marketing arm of the business. It is a well-understood cost.

MR COSGROVE: Yes, I understand that. I guess what I was driving at though was that if you lost share to a foreign supplier in the local market, then that foreign supplier would still need to be employing people to distribute and market its own product. They mightn't be the same people.

MR EDWARDS: Sure.

MR COSGROVE: But there would still be a demand for that type of employment, whoever is the producer, would there not be?

MR EDWARDS: Certainly someone like one of our competitors, which is the Parbury distribution group with the Wilsonart brand from America - certainly that is the case of, as we classify it, a responsible competitor. In terms of the product - maybe one of the other 13 importers of product where product is directly imported, that product is used as an alternative and may be distributed through existing distributors already, whether that be someone like a BBC or a Mitre 10 or a Bunnings, and I wouldn't necessarily suggest it was an automatic assumption that that would lead to increased opportunities in sales distribution or certainly marketing, because in terms of marketing the brand or the product group of high-pressure laminate, I would say that that rests firmly in the hands of two major people, one of them being ourselves and one of them being Parburys, and certainly our investment in the whole category as a means of defence against alternative product as well is a very real cost, and I think we bear the brunt of that.

MR COSGROVE: Okay. A point which came up with a participant earlier today was the question of how sensitive a demand for product - and we're now talking about yours - is to a change in price, which could be expected to come about if the tariff were reduced. Can you enlighten us upon that so far as your particular product is concerned?

MR EDWARDS: Yes, certainly.

MR COSGROVE: You mentioned you have, you feel, some advantage in terms of response times and design aspects and so on. Are those significant counterpoints to the price factor itself?

MR EDWARDS: I certainly don't want to get onto a statement of theory I suppose, but purely out of practice and observation, our value proposition is based upon a series of things: good distribution, good service, backup in terms of guarantee and support, as well as what we classify as being research and development into improving quality and improving product range and therefore choice. So we put a lot of time and investment into that.

From our perspective one of the easiest ways for importers to actually gain market share is to play purely on the area of price which, for many people, is the key ingredient in the value proposition, so from our perspective we feel that there is a genuine threat. Perhaps to give you some indication, our price rises are fairly judicious and taken with a great deal of consideration. Our last major wholesale price rise in the high-pressure laminate market took place in January of 1999. That was a fairly small increase, in the vicinity of less than 3 per cent. The previous year in 98 was a move towards a larger price increase of some 4.5 per cent on the high-pressure laminate market. The subsequent impact on our volumes is a lesson well learned, of a decrease in pure volume terms, in square metres, to such an extent that the overall profitability as a result of that exercise was reduced. So whilst we understand that we try and play the game on a whole series of other parameters other than price, we realise that it's one of the most sensitive impacts on a customer's decision.

The other complex issue, if I can add at this point, is that certainly from a customer perspective there are alternative products that the end consumer can utilise. Even in our renovation of our home my wife wanted to contemplate granite, but I thought it was more than my job was worth actually. So we have that competition coming from that end and the situation for us therefore is to maintain competition across the total category of product. Granite itself is becoming quite a commodity product in one sense. It's very difficult to handle and very susceptible to damage and therefore there are guarantee and replacement issues but, as a product, it's an alternative product which has seen our share of the decorative surfaces market be reduced by 10 per cent.

The other factor that can also impact is that it's a very complex distribution channel, that whilst a customer might say, "I want laminex, white, high-pressure laminate, please," there is the opportunity within the channel itself, after it has been specified, for cabinet-makers who also are producers of the end laminate tops to recommend strongly substitution to customers for reasons which may not be price based, but which in our understanding and our research is certainly there to provide the cabinet-maker with additional profitability opportunities by substituting less expensive product, and it's one of our major concerns, to such an extent that we have supported our sales and distribution and marketing force with a specification team who are out there specifically to win and maintain specification on domestic and commercial jobs, to prevent substitution, which is also an erosion of market share and profit.

MR WOODS: Can I compare some of the points you just made with the bottom of page 27 of your submission, where you are saying that it shouldn't be assumed that tariff reductions will be fully passed on to consumers and that where rates of less than 5 per cent are concerned this outcome is more likely, ie, that the end consumer would be excluded from price reduction. If that's the case and it's as I read it here, then doesn't that reinforce the point that a further reduction in tariff wouldn't necessarily have as high a degree of competitive impact on your business?

MR EDWARDS: Margins of any business are absolutely vital and important to us in the total process of being a profitable Australian manufacturer and distributor/marketer. In this particular issue we see the 5 per cent as being the only means of support offered to us in the issue of competitiveness, so perhaps maybe I could ask you to - - -

MR WOODS: I understand that point, but here where you're saying that the impact would be absorbed primarily by the chain - "to the exclusion of the end consumer" is the phrase you use here. So in terms of price point impact at the retail end, you're saying that there would be very little impact, therefore one has to question why there would be some consumer switch to an imported product rather than your own if they don't - if they're not realising the benefit.

MR EDWARDS: No, I certainly appreciate now. Thank you. I go back to my previous statement in regard to the complexities of the distribution channels. The distribution channels, if I might just give a small example: for instance, if a consumer decides that they wish to renovate their kitchen, they have an alternative. They can go to a kitchen manufacturer on a direct basis, who will do a rudimentary design for them, and that's one avenue. Now, on that basis, a substitution of product is available. That substitution and profitability is maintained by the kitchen manufacturer, as opposed to necessarily being passed on to the consumer. It's not necessarily in the interests of those people manufacturing kitchens to provide an additional benefit in order to substitute a competitor's product.

MR COSGROVE: It depends how much competition there is and the general impression we have from your submission is that there's a lot of competition within the laminate sector, from imports in particular - - -

MR EDWARDS: Yes.

MR COSGROVE: - - - and between laminates and other types of kitchen and bathroom fittings.

MR EDWARDS: Yes.

MR COSGROVE: So why would there not be some price benefit, even in the example you were just giving?

MR EDWARDS: There may well be some price benefit. I don't think we could assume that that price benefit would automatically flow on to the end consumer because there is that middle link, whether it be a kitchen manufacturer or a cabinet-maker, where the opportunity is not necessarily to win purely on price. They already have the opportunity of winning on price as it stands. The addition of another

5 per cent is not necessarily a make or break situation to hand over another 5 per cent price reduction to the end consumer.

MR COSGROVE: Let's look at this another way. Tariffs have been coming down in your industry for quite some time now. Have there not been reductions in end consumer prices over that period?

MR EDWARDS: There have been, on the basis of level of competition, correct.

MR COSGROVE: So why is that process going to stop if tariffs were to be reduced further?

MR EDWARDS: I think the point there is that it shouldn't be assumed that it will automatically lead to price decreases.

MR COSGROVE: Fair enough, yes.

MR EDWARDS: I can't actually make the statement to say that it won't, but the way of the distribution channels - I don't think it's a fair assumption to assume that would be automatically passed on to the consumer.

MR WOODS: Not on a one-for-one basis. You're saying there's opportunity for absorption of part or - - -

MR EDWARDS: There may be opportunity for that to take place, yes.

MR WOODS: - - - on the way through. Picking up John's point about previous tariff reductions, I notice on page 5 of your submission, the second-last paragraph there, you're talking about the continuous reductions in tariff protection over the last two decades, increasing competitive pressures, etcetera, and that this has led to considerable adjustments, all of which seem to point to considerable consumer benefit arising from that process. It reinforces a perspective that these tariff reductions at least to date have been, within our terms of reference, of benefit to the Australian community, and again it's then hard to say, "Well, only to this point." Why not that next step?

MR EDWARDS: Certainly from the perspective of micro-economic reforms we certainly have embraced those micro-economic reforms as one would expect us to within our business at every opportunity. That does continue to see erosion of profit opportunities, and certainly in a very competitive market there is a necessity to be competitive to the end customer as well. I suppose it is just an additional reform which we don't necessarily see as - it's being another subtraction as opposed to being a trade-off. We understand and embrace micro-economic reform.

Our major concern here is, I suppose, the situation where if margins are based upon need to be a profitable organisation and continue to be a leader and an employer and a developer, an investor in the category, then from our perspective one of our major compensations is in terms of being able to continue to refine our own manufacturing processes to ensure that we can continue to reduce cost and be competitive. Other alternatives - and being a marketer is quite a sensitive issue - would be certainly to reduce dramatically some of our costs within business, such as our investment in the marketing of the high-pressure laminate and the laminate produce itself, which would be at the expense perhaps of even further market share against substitutable product.

MR WOODS: Presumably you invest in those expenses because you see they're necessary to deliver your end product.

MR EDWARDS: We certainly see that as a means of being able to defend a market position.

MR WOODS: Yes, and that's quite sound. The submission overall - not only has it given us an impressive understanding of what your company has been doing, but the way it has embraced micro-economic reform, and there are various statements throughout it where you have evidenced strong support for that, and yet another example where you're urging the immediate abolition of the 3 per cent revenue duty and you say in support of that it's for the sake of sound economic rationalism, which sounds entirely sensible. So there is this constant theme going through your submission, and it's just hard then to work out why stop at a particular point in the process, particularly as on the case of this 3 per cent revenue duty you're urging that the process in fact does continue. There seems to be a slight imbalance in argument.

MR EDWARDS: Yes. Where perhaps we see the 5 per cent as being maybe not the final straw but another concern for us is, within margin, in order to be able to - as I referred back earlier, in order to be able to continue to improve not only the quality of our product and the support to our product, which has its own costs, but also to improve our competitiveness in the marketplace, which is demanded out there as the consumer has more and more, and, I say quite justifiably, more ability to impact on these situations.

The ability to be able to continue to find further cost reductions to offset the potential threats posed are issues which in our opinion require quite large investment of time in planning, so the issue for us I suppose is a concern which is an unknown or an unknown quantity: if ultimately the issue of the tariff reduction is to take place, the time that we need to invest in planning to ensure that the 5 per cent can best be countered within our own business in some other form of rationalisation to ensure that we are not impacted adversely and another opportunity being given to importers of product who don't have the same investment within the Australian community, and also I think a genuine policy of providing value beyond purely a price equation is important to us, and we feel that that time is required because under normal circumstances the simplest way for us to be able to counter this would be to try and crank up even further our manufacturing arm to provide greater efficiencies, and greater efficiencies don't necessarily come through cost rationalisation of the labour force, they come through increased volumes.

The more volume we can process, the better it is in terms of our ability to reduce price and therefore pass on benefit, and in a static market that isn't growing and it becomes a market share issue, we feel we're at greater risk of losing our market share on a price issue, as opposed to being able to enjoy the benefits of genuine competition in a growing marketplace.

MR COSGROVE: Would you have any scope to use that additional volume in export markets?

MR EDWARDS: At the present time we see ourselves as being the benchmark from an Australian perspective in terms of quality of product, and that is clearly understood by the trade in regular feedback, including our latest market research, of over 700 of our customers in the last 12 months, where their feedback to us is that the product and the service and the reliability of Laminex is exceptional.

MR COSGROVE: And that feedback is of your product as compared with imported product?

MR EDWARDS: Imported product and other competitors.

MR COSGROVE: So from that point of view you seem to have a strong competitive position.

MR EDWARDS: Our situation, to respond, John, to your question in regard to the exporting opportunity, is perhaps sensitive information, but in terms of cost of production of a square metre of high-pressure laminate - we pride ourselves as being an efficient organisation - to manufacture in Australia is somewhere in the vicinity of $11 to $12 a square metre. The cost of overseas product to be imported into the Australian marketplace is in the vicinity of $8 to $9 a square metre. We certainly have endeavoured to investigate opportunities of export markets but would only do so on the basis of having an export business, but it being a profit-loss arm of the business.

We do dabble through distributors in areas of New Guinea and even Fiji, but it's not something that we ourselves would create an additional arm of our sales and distribution team because simply we are not in a cost competitive situation to be able to do that.

MR WOODS: I presume by Australia you mean Australia and New Zealand in terms of market, particularly given your takeover of Formica.

MR EDWARDS: Yes.

MR WOODS: So you're talking about the Australasian market in that sense, not just - - -

MR EDWARDS: Yes.

MR COSGROVE: So an export would be to a non-Australasian market.

MR EDWARDS: Yes.

MR WOODS: But you have looked at establishing sales offices elsewhere, as I recall in the submission, although I can't put my finger on it just at the moment.

MR EDWARDS: Yes, we've certainly contemplated it. Any review in terms of establishing offices has through a financial business case study quickly been seen to be inappropriate. We looked at the opportunity of setting up distributors, which is our secondary support mechanism, even in the Australian marketplace, to our direct branch.

MR WOODS: Yes.

MR EDWARDS: Well, direct 37 branches. So we really haven't progressed that on the basis of it not being economically viable for us.

MR WOODS: You talked about the differential in price between imports and your local production, and yet a lot of the import as I understand it is coming from the US where I wouldn't have thought labour rates would be significantly different. So is it in volume where they're getting their economies of scale?

MR EDWARDS: Certainly.

MR WOODS: Technology? Presumably you've got the same access to technology through the German engineering firms, etcetera, that they have.

MR EDWARDS: It's definitely not a case of technology. Our capital investment is in the vicinity of $400 million.

MR WOODS: The record comes through quite strongly in your submission.

MR EDWARDS: It's basically in terms of, as I said, efficiencies through manufacturing and volume, and the size of the American marketplace, for instance, provides an enormous opportunity to create cost efficiencies through volume manufacture, and as a result of that many organisations are quite happy to see, on a variable costing basis, export opportunities for additional volumes, and by variable costing - would you like me to go into that avenue at all or explain the concept?

MR WOODS: Just briefly.

MR COSGROVE: Is it marginal cost pricing?

MR EDWARDS: It's marginal cost of product. So once they've manufactured their requirements for their own domestic marketplace, the volumes that are produced in excess, the efficiency is garnered through the running of machines 24 hours a day, seven days a week. That product is marginally costed and offset against the price of product in their own domestic market. So it's something that we dabble with in terms of our export ability on MDF for instance - medium density fibreboard - which in its own right is a means for us of being able to crank up our manufacturing to provide a cost-competitive MDF product in the Australian market and the excess volume is simply provided as an export as a means of not overloading and dumping in our own marketplace.

MR COSGROVE: Do you feel that you're more competitive internationally in the MDF market than the high pressure laminate, or is it simply again a case of marginal cost pricing, as you were saying?

MR EDWARDS: It's a marginal cost pricing issue for us, because of the fact that we do have direct competition from an Australian manufactured perspective in the Australian market, so there is a means by which, if the volume provides us with the efficiencies to be further cost-competitive, then the export is a means of outlet, as I said, without being disruptive to the market through internal dumping.

MR WOODS: Is there a market for your high-pressure laminates through southern and eastern Asia, and is that being supplied at the moment by the US and other manufacturers?

MR EDWARDS: It's essentially through South-East Asian manufacture itself. Formica Asia, for instance, is a major player in the Asian marketplace, and therefore the Asian marketplace has the same manufacturing base as does the US, as does Europe. So each in their own markets.

MR COSGROVE: So are you saying there's not much foreign trade in these products though? I mean there seems to be in the case of our market, with overseas suppliers gaining market share. Is that not the case elsewhere; for example, a US producer selling into Asia or Europe or vice versa? Does that not occur?

MR EDWARDS: There's certainly from the point of view, for instance, of product - of positioning differentiations. There's certainly the opportunity for a company like Abet Laminatae, one of the competitors, an Italian competitor, who we also feel is a fairly responsible competitor in their own right. They certainly have a position which is not around pricing but rather around product and fashion forward content. That's one issue, and certainly there are forays into the markets around the world in terms of differential positioning, but certainly not from the point of view of price positioning and coming in to be able to have a primary differentiational point of price. So, no, we don't believe that to be the case.

MR WOODS: But the Australian market in fact, you're saying, is the reverse; that there is a lot of price sensitivity and price competition from imports into the Australian market, but that's not happening in the South-East Asian market or the US market or the European market. Why?

MR EDWARDS: I'm certainly not an expert in this particular part of the business, to be quite candid with you, but my understanding of it through my colleague Paul Weatherall, who's the general manager of operations, is along the lines of the competitive pricing or the cost price benchmarks, there is a global benchmark as opposed to one that is sensitive to each individual market of South-East Asia, America or Europe. There's no doubt that we see ourselves at this time somewhat out of sync, but not through our own efforts, but in terms of our ability to manufacture the volumes to enable us to be cost-competitive to international benchmarks.

MR COSGROVE: I guess without some success in developing export volumes, that's going to remain a problem for you.

MR EDWARDS: It will remain - - -

MR COSGROVE: You seem to be losing market share to other materials domestically, even if the domestic market is growing.

MR EDWARDS: Yes.

MR COSGROVE: I guess it's fairly mature. So how do you see yourself overcoming this volume disadvantage?

MR EDWARDS: We find it to be cyclical, for instance, in terms of customer selection. I don't know whether you can recall, but one of my early recollections of laminex was the laminex kitchen table in grandma's kitchen - - -

MR COSGROVE: Indeed.

MR EDWARDS: - - - a green one, with the aluminium legs and what have you.

MR WOODS: A strip around the edge.

MR EDWARDS: At that time we were a major manufacturer and provided to the Australian furniture industry, and retailers such as Myer Grace Bros advertising laminex kitchen tables. In some parts of the marketplace it's actually a retro fad to go back to that very product. We do see fashions being quite cyclical, and we see ourselves as not just being a manufacturer; we see ourselves as being a marketer and distributor of product, and not only raw materials but value added product. In the manufacturing, for instance, we have just gone into another bow, if you like - or a string to our bow is that of manufacturing ultimately the end bathroom vanity units. So we try and add other dimensions to our business.

Certainly at the moment the ABS statistics show that there has been a growth in alternative decorative solutions such as granite and stone, timber, and also aluminium and even glass, and from our perspective we have a heavy investment in research and development in terms of the appropriate technical people as well as the appropriate marketing people to try and give us an alternative edge. Some of that alternative edge comes in, for instance, chemical resistant product which we probably need to increase the amount of marketing we do in terms of product knowledge to our own customer, to explain that one of the reasons at the end of the day why we even contemplated moving back from granite in our own home was the practical capabilities, if you like, of a laminex top which can't stain, doesn't scratch as easily, doesn't cause damage to other product. So we believe this is a matter of a marketing exercise for us to re-establish laminex to the end consumer, which we've lost in the last 30 years.

MR COSGROVE: I think that type of effort and product differentiation is probably going to be very important for you, although I'm not here as an adviser to Laminex. I'd be a very poor one, I suspect. Going back to the price situation though, David, you mentioned that in the last two years - my arithmetic was near the mark - you've increased your wholesale price by something like 7 per cent. Is that right? It was 3 and 4?

MR EDWARDS: From in 98 from about 4, 4 and a half, and an additional 3.

MR COSGROVE: And another 3. Without having in my mind what has happened to the average wholesale price index, I'd be surprised if those increases weren't significantly higher than the average price movement. It made me wonder whether, had you been able to work with increases nearer to the economy-wide average - which I guess might have been as low as 1 or 2; I'm not sure, I haven't looked at that index recently - you might not have had the same degree of adverse purchasing that's obviously occurred in response to that.

MS PAPACHRISTOS: My name is Nifeli Papachristos. I'm the research manager. In 98 when we had the 4.5 per cent increase it was because for the previous I think 18 to 20 months there was no price rise because of the competitive pressure and what had happened to the industry in 96, and hence we went out with a 4.5 which was higher than the year's index.

MR COSGROVE: Right.

MR EDWARDS: Can I also add to that from the point of view of - and certainly within a more detailed submission, we're happy to provide our understanding of the marketplace. But there are two other elements in this: from within an industry perspective, there are further price increases that have taken place, to our knowledge, again this year from our competitors, and those price increases vary between a 3 and 5 per cent price increase. Some of our competitors actually implement two price increases a year because they come from a lower cost, lower price basis, and one of our responsibilities as a leader in the marketplace, which in addition to wanting to ensure that we are still a viable business, one of our decisions strategically was to try and endeavour to show some leadership within the marketplace of lifting prices in hopefully a responsible manner, that were fairly symptomatic of this particular industry.

To that end, while certainly the 4.5 per cent may well be perceived in a one-off, as Nifeli has suggested, as being perhaps even excessive, it was a balancing act and certainly the 3 per cent to 5 per cent that have taken place this year, it has been my decision within Laminex - to the concern of other members of my own management committee, I might add - the market research highlights from our customer perspective that we are not in a position from the point of view of substitution of product to be able to put additional price increases into the market, and so therefore we watch on as our competitors do.

MR COSGROVE: Okay.

MR WOODS: On the question of imports and exports, you talk about the exchange rate - this is on page 8 of your submission. You make the point that you have both imports and exports and that they're in the major currencies, and in that sense there is some sense of balancing but presumably in terms of imports of competitive product the exchange rate must provide quite a significant factor in your competitiveness in the marketplace. You don't touch on that in this submission to us.

MR EDWARDS: I suppose it's one that we could be further challenged on. I hope it comes across in the right manner, but I suppose it's an issue of whether or not this whole process is an ongoing balancing of a ledger or whether or not, as we are trying to address here, an issue which would have a genuine impact as opposed to the ups and downs of the exchange rate situation, which certainly is an issue but whether or not I can sit here and explain it as being a good balance or counterbalance, looking at them independently - we've looked at it as an independent issue.

MR COSGROVE: But against your major foreign competitors, there's no doubt that - I'm pretty sure there's no doubt that over the last decade the movement in the value of the Australian dollar will have given you additional market advantage. We're looking at the US, Germany, Italy, UK, France. The Australian dollar has fallen against all of those currencies, in some cases quite substantially. I don't know whether it's on a scale which matches or exceeds the reductions in the tariff, but it might do in some of those cases.

MR EDWARDS: It certainly would be worthwhile from our perspective to do some further work.

MR COSGROVE: We used to be US78 cents five or so years ago. We're now 66.

MR EDWARDS: Certainly. It's an interesting scenario, though, from the point of view of - when monitoring the market share situation re our competitions - the growth of the number of importers that find this to be an attractive marketplace to enter into, that growth has actually taken place within the last eight to 10 years, and even more substantial, I would suggest, in the last five to six years. So it certainly is one which I can't necessarily put a direct response to you on, but the erosion of market share has come perhaps at a time when we should be benefiting even greater from those exchange rate issues, but maybe it's purely on the basis of there being between a 40 to 50 per cent differential on our ability to manufacture high-pressure laminate based upon the volumes of the Australian marketplace. We're coming off an $11 to $12 base versus maybe an $8 to $9 base. So I'd suggest that's probably countering that issue.

MR COSGROVE: Yes, okay. There are a couple of other points which I'd like to explore with you, David; one is I think again towards the end of the submission in section 6.2 on page 27. It's a kind of theoretical point. It says there the improvement in allocative efficiency of a given reduction to a high tariff rate such as those that remain in the TCF sector is much greater than the results from a low tariff rate. In fact it goes on in the next paragraph to say that the point of no allocative efficiency return may already have been reached. That may be the case or not, I'm not sure.

But it made me think that if the efficiency gain from a further reduction in a 5 per cent tariff is low, it also suggests that the assistance provided by that tariff is low or small and in turn that adjustment pressures associated with a lowering of that tariff would also be small. Do you agree with that or not?

MR EDWARDS: Obviously speculative and I could put a bend on it - which is obviously a temptation to argue that point. I might come to it, if I can, from a sales perspective, perhaps a customer perspective. The high-pressure laminate business in times of difficulty - I suppose associated with maybe cyclical downturn as well, in housing issues because of economic conditions - we find ourselves obviously very susceptible to high levels of competition. Currently - when discussing the current business situation only on Monday - we were contemplating why it is that at a time of high demand pre the concerns of the GST in the building industry, why is it when there is so much demand and so much activity, that prices are being hit and the competitive price situation is extremely strong at the present time in terms of pressures on margins?

I suppose from this perspective there is a high incidence of major portions of our business - particularly in the commercial part of the market, which is the smaller of the two, the domestic and commercial - whereby in order to win specification and win business we obviously have to be competitive to the tune of at cost or on cost. It's dependent upon our mix of business at the time, but certainly if it's one of the only forms of protection we have where there are instances of genuine little or no margin, then we'll cling to that as a means of some sort of support mechanism which an additional 5 per cent - I hope it doesn't come across too dramatically - may or may not make the difference between being able to conduct profitable business as opposed to trying to endeavour to marginally cost product to ensure that we can win a contract. I'm afraid that's not a very direct response but - - -

MR COSGROVE: No, I can see what' you're saying. It may indicate, though, that the efficiency gains are not as small as you might think if - as you say the market in these circumstances is competitive as it is.

MR EDWARDS: In these circumstances, when one might expect to be enjoying a boom period where price may not be as important an issue, but it certainly is at this time, so it is an impact.

MR WOODS: Your statement there, though, that the point of no allocative efficiency return may already have been reached - is that based on analysis, or is that a debating point that you put into the submission?

MR EDWARDS: From where I stand today I could suggest to you that it's more a point for debate and discussion and suggesting a perspective that we have at the present time.

MR COSGROVE: The other part of your submission which I think we should try to understand a little more about is what you've had to say about the tariff concession system and the policy by-law system. These are particular elements of the inquiry which we've been asked to explore. You have some suggestions there. You feel that the systems are not working particularly well.

MR WILKINSON: Ross Wilkinson from Trade Consultants.

MR COSGROVE: Okay, thanks, Ross. The sections I'm referring to begin on page 21 I think and go on for a page or two. You have some suggestions there about the interpretation of definitions and the fact that they might I think be somewhat inflexible in certain regards, you want to change the threshold and, on the capital equipment side, there was another point there - I can't recall the details but would you mind trying to explain those issues to us in a little more detail.

MR WILKINSON: Certainly. I guess that in analysing Laminex Industries' position of at some point in time tariffs falling, if that remains a possibility, it was to then look at what other areas could you look at to shore up into, so that in that area of transformation for the company they need to look at obviously their product range, their margins and how they're competing. Therefore, if there is an ability to mix that product range it would tend to rely on a flexible concession system that could also help them compete. On that basis, if we look at the tariff concession system that's predicated on a concept of competing uses rather than competing markets, hence the comment that it is inflexible in that area as we move down that path.

So that was the reason, and from our own practical experience there's very much a broad interpretation by the Australian Custom Service on use, rather than a narrow one, and in that context it makes it slightly inflexible for a manufacturer to contemplate an import product range substitution.

MR COSGROVE: What is the practical difference between substitutable goods and the concept of use?

MR WILKINSON: The definition talks about a use that corresponds with the use.

In other words to determine what is substitutable it looks at what is a corresponding use irrespective of market.

MR COSGROVE: So would this, for example in Laminex's case, mean that granite or a timber product would be brought into the calculation?

MR WILKINSON: Quite possibly. I guess also you could look at - - -

MR COSGROVE: So they're using a wide definition of the market.

MR WILKINSON: Yes. And you could also say benchtop laminates as opposed to particular market segments of benchtops.

MR COSGROVE: Why is that inappropriate? After all, consumers - as we've seen in the submission - are choosing between laminate products and stone products and timber products. Why should that not be the basis on which the question of a tariff concession order is given or not?

MR WILKINSON: You mean in the context of the benchtop market is all materials - - -

MR COSGROVE: Yes, let's take that.

MR WILKINSON: - - - and therefore Laminex is protected from concessional entry of those products. Is that what you mean?

MR COSGROVE: I'm sorry, I'm not right up to date on this section of the submission, but you say at the outset that Laminex has concerns about the interpretation of definitions and that they are being - the definitions are being used too broadly, which led me to think that Laminex is worried that competitors may be able to bring in these alterative benchtop products to its disadvantage. Is that the issue or not?

MR WILKINSON: No, not really, John. I guess the real issue is that there is always, through the administrative process, an ability to monitor that area. In other words, through a definition, if it's market related as opposed to use related then Laminex has an ability to monitor that through the administrative process. In other words, if someone lodges a concession they then have an ability in a market test basis to object to that. But if that particular market is not serviced by them or indeed it's serviced by currently by imports in an import-local manufactured product mix, then they have an ability to also enjoy that particular concession. So I guess that's what we're looking at from the point of view that as competition gets a lot fiercer these mechanisms will help in more market spot analysis rather than an overall objective.

MR COSGROVE: I see, yes. So this is where it gets rather technical also in the context of capital equipment. You say that "TCF needs further change to have a compete clause or requirement in this definition to preclude manufacturers merely claiming the potential to manufacture." I didn't quite follow that either. Why should potential manufacturers already have carried out R and D and design work and proving that they have a market over two or three years before they can bring anything in? Why would you go so far as that in terms of tightening the arrangements?

MR WILKINSON: I guess there are separate provisions in the tariff concession system that talk about capital equipment, and in those definitional areas they talk about an ability to manufacture: is there technical expertise available; would they be prepared to accept an order? But there is never a test carried out, I guess, on a compete basis: have they actually made that piece of capital equipment and have in fact they carried out the research and development necessary, or have a licence for the process, etcetera, or the technology to manufacture?

Our experience is that a lot of manufacturers get quite frustrated with that in the legislation because they're forced to go to a known producer of that capital equipment as opposed to someone that may want to manufacture it, or believe they can manufacture it - as opposed to someone that's known. So there is a high risk associated with going to an entering company as opposed to someone who is in the business of manufacturing that equipment.

MR WOODS: In the case of Laminex is this based on actual experience, or is this a more generic point that you've included in the submission?

MR WILKINSON: More generic point. It's more a generic point, one at which any future, I guess, investment decision - you'd be looking at what is the impact of the duty on your capital equipment and therefore the abilities to remove that come into play, and so we see that as historical - what's happened - in a generic sense through the tariff concession system, and I guess there's quite a few manufacturers around that would probably back that up.

MR COSGROVE: And on the policy by-law matter, the threshold or notional threshold as it's referred to here being reduced, this type of equipment is still subject to duty, is it?

MR WILKINSON: Correct.

MR COSGROVE: At what rate? Do you know? Is it five?

MR WILKINSON: At five. On the top of page 23 we tried to summarise the two key areas of where that capital equipment would be classified coming into the country, particularly from Germany, which would be for 5 per cent, yes.

MR COSGROVE: There seems to be a certain amount, if not a good deal, of administrative effort associated with the use of these various schemes.

MR WILKINSON: Indeed.

MR COSGROVE: I mean, it would seem cleaner to simply have no tariff on these products, but then that brings into question perhaps the output tariff itself, the 5 per cent that we have been discussing earlier. From your own perspective do costs of complying or trying to use these schemes loom large or are they not significant? Can you give us any guidance on that?

MR WILKINSON: I guess that's from my perspective a fairly astute point, because it is a cost, and one could say from a selfish point of view that's good for our business and what we do, but as a responsible - in our business you look at the clients and you can see the frustrations, you can see the lack of results and the enormous amount of resources that go into delivering the result. That comes about from, I guess, administrative policy that seems to be inherent in there. The overall intent in policy has always been there, and that is to reduce the input effect of duty on investment in capital equipment into this country, but that seems to have failed on the way through to the delivery of the policy. We have experienced a number of cases, and indeed the Pulp and Paper Manufacturers Federation, have experienced it and I think Visy is experiencing that right now as we speak, with their project.

There is this balancing act between protecting Australian industry and producers of capital equipment and balancing that against, on the other side, investment of that capital equipment and providing the necessary, if you like, exemption of import taxed effect of duty. What's happened at the end of the day is: say for instance a company like Laminex could place a purchase order for a line in Germany. To construct that line would take some maybe six to 12 months of construction and lead time from the point that you are importing the first base structures right through to building up the entire line. The present system is inflexible in treating that as a purchase order for an entire line and if the manufacturer decides to send a part of that line out separately, customs ask you to test that against local industry.

So irrespective of the intention for Laminex Industries to place an order on a line, you are then required to test local industry against a particular dryer or something that might be made locally, but in the context of integration of equipment and performance guarantees by the manufacturer of that capital equipment, Laminex would not stray from that for the sake of trying to locate a manufacturer for one piece. That is the way the system is being administered - on that basis - and that in itself takes an enormous amount of resources, both within the department to go through that mechanical process and documentation process as well as on our side to prove that that is not the case.

MR COSGROVE: Are you aware of circumstances in which at these prevailing low levels of tariff these administrative and compliance costs might get close to the value of the tariff itself?

MR WILKINSON: Certainly I think, John, at the end of the day on around a 10 to 20 million dollar project definitely it's getting very close, and even up to probably the $50 million level. Over 100 and plus it starts to get a lot better cost-benefit but certainly, whilst we're saying reduce 10 to 5, in that 10 - tends to - and in the definitional aspects preclude upgrades. If Laminex Industries wanted to upgrade one of the lines as opposed to bringing in a new line, there should be some incentive for that, but under the current system the impediment is the $10 million plus the administrative process that don't allow them.

So I guess we're asking for two things: bring that $10 million down to allow that, but secondly have some administrative opportunity there too, in a very cost-effective way - I think it's the reverse of self-assessment if you like. I think the department are putting heavy documentary procedures in place that almost act as a barrier and a disincentive almost, and what we're trying to do is try to clear that through to be more efficient, under a self-assessment regime have the company make sure they abide by what their obligations are rather than have people checking all the time.

MR COSGROVE: Would there be any actual evidence in Laminex's experience which could be provided to us of these types of costs - magnitudes?

MR WILKINSON: Certainly there's - - -

MR COSGROVE: Not today obviously, but if you had an opportunity to - - -

MR EDWARDS: Yes, certainly. Certainly from our Gympie manufacturing arm and the opening of the new section, the G1 section, of Gympie we could provide details.

MR COSGROVE: It would quite helpful for us I think to have something like that as a practical illustration of the extent of these costs.

MR EDWARDS: Certainly.

MR COSGROVE: What you've just been saying though raises a more general question in my mind, in that Laminex is a company obviously that likes to have the products which it uses - consumes in a sense - coming in essentially free of duty. Why then should not the users of Laminex's products also have the opportunity to purchase from overseas free of duty? What's the difference between those two situations?

MR WILKINSON: I guess I would see that, John, more as a point of timing, not inevitability that that should always remain to eternity.

MR COSGROVE: No, but we've got the 2010 point.

MR WILKINSON: That's right. We're just saying that from now until 2005 there need to be some - these measures take place to enable some planning and breathing space to take place.

MR COSGROVE: Yes. I remember now you were hinging that to the treatment accorded to the passenger motor vehicle and TCF industries.

MR WILKINSON: Correct. Well, that's more on an equity grounds point of view, yes, certainly, but I think also from a structuring and restructuring point of view for Laminex Industries that breathing space would be welcome.

MR COSGROVE: Okay. Thank you very much for, as we've said, a very extensive submission and a very interesting discussion, and we would appreciate having some of that further information on the administrative and compliance cost side.

MR WILKINSON: Would you like us to come back on your earlier point, John, about the tariffs and the South-East Asian countries?

MR COSGROVE: If you have some material of that kind, certainly, yes. You could provide it to us at your convenience in the same correspondence, I think.

MR WILKINSON: Okay.

MR EDWARDS: Certainly.

MR COSGROVE: Send it to the commission in Canberra, would be fine.

MR WILKINSON: Okay.

MR EDWARDS: Thank you.

MR COSGROVE: Thank you. Our next participant is Plastics and Chemicals Industries Association. We'll just take a short adjournment and we'll wait for them.

MR COSGROVE: We will resume now with the Plastics and Chemicals Industries Association. Would each of you, please, for our transcript identify yourselves and the capacity in which you're appearing today.

MR VAN KRIEKEN: Ashley Van Krieken, commercial affairs officer at PACIA.

MR McCALLUM: And Bruce McCallum. I'm a member of the Trade and Economic Affairs Council of PACIA.

MR COSGROVE: Thank you. And thank you also for providing us with a written submission which we've naturally taken the time to read. But, Ashley, you may want to make some particular points to us.

MR VAN KRIEKEN: Yes, if I could.

MR COSGROVE: Sure.

MR VAN KRIEKEN: PACIA or the Plastics and Chemical Industries Association represents over 400 members which covers about 85 per cent of the industry's annual turnover. Many of our members have plants and operations located in regional Australia, where they have and do provide quite valuable investment income and employment opportunities for those regions. We argue for the immediate removal of the 3 per cent cost impost on the tariff concession scheme. Such a scheme raises the cost of imports, both goods and equipment, to the chemicals and plastics industries. In 1996 or about five years ago, it was estimated to be by about $50 million per annum extra costs from this scheme.

We believe that with the federal budget currently in surplus and the GST due to be introduced in July that there's no reason why the government should continue this scheme as a form of revenue raising. We argue this, given several of our producers are price takers in final products and therefore are forced to absorb these extra input costs, rather than passing them on to the consumer. Many of our companies have prices set at generally the Asian level, it can also be European and American rates, which doesn't obviously allow them a lot of scope to modify their pricing.

As well as a tariff concession scheme, PACIA would also recommend that the commission in their report suggest to the government to remove tariffs that have been imposed historically on goods but for which there is no longer any domestic production, for instance, phenolic moulding compounds. I believe Huntsmen closed down their plant in late 1996-97, and there's still a 5 per cent tariff on it, so we also see no reason why those tariffs should remain set at 5 per cent.

I think the removal of the cost imposts on the tariff concession scheme is a positive and important step forward in Australia's trade arrangements. With respect to other tariffs on chemicals, we acknowledge that the government is committed to the Bogor Declaration via APEC, to have free and open trade with other developed countries by 2010. Certainly through the ICCA, PACIA has agreed to actively lobby for a multilateral agreement of zero tariffs on chemical products by 2010, in line with the Bogor Declaration. However, we argue that the government should be recommended not to adjust tariffs downwards until such time as a multilateral agreement can be reached to reduce tariffs globally to zero. It's our belief that any early unilateral action on Australia's behalf will allow greater import penetration to Australia's chemical and plastics markets and provide no reciprocal benefit for our exporting companies.

The ICCA represents 80 per cent of the world's chemical producers and, as I said, they have reached an agreement to lobby governments to reduce chemical tariffs by 2010, so certainly I think the chemical industry is one of the few industries that actually has international agreements in place to have tariffs reduced. The current one is the chemical tariff harmonisation agreement which makes signatory countries reduce their tariffs to a 6.5 per cent upper bound and, as we state in the submission, 19 countries, including Japan, the United States and the European Union are already signed on to that agreement.

Also we feel that the concessions China was willing to make in terms of reducing most of its tariffs down to this 6.5 per cent bound is an example that multilateral or regional agreements can be reached and are probably the best way for Australia to proceed at the moment.

With the failure of the WTO, we believe that the Australian government needs to focus at the regional level, possibly through APEC or the proposed AFTA-CER linkage in order to keep the issue of trade liberalisation on the national agenda. Once again, PACIA would like to reiterate that any early unilateral action on the part of the Australian government to reduce tariffs without obtaining overseas market access will, in our opinion, have a detrimental effect on the industry and its contribution to Australia's economic wellbeing. Australia's history of reducing tariffs from what were some of the highest in the developed world in the late 80s to what are now some of the lowest globally I think already puts Australia in a strong position to bargain for future negotiations with other countries to have a reciprocal tariff reduction. We also caution that the Australian government, should it remove tariffs, reduce the general tariff level to zero, also removes a valuable negotiating tool for further trade negotiations in achieving trade liberalisation.

In conclusion PACIA suggests that the commission recommend that the government remove the 3 per cent impost on the tariff concession scheme and on tariffs still levied on goods that are no longer produced in Australia, immediately. This would reduce the input costs to industry and increase our competitiveness. With all other tariffs the government should wait until it has multilateral or regional agreements in place, which will see Australian tariffs reduced in line with those of other signatories to the agreements. PACIA believes the framework is there for Australia to meet its 2010 APEC obligation. That's all I have to say. I thank the commission for listening.

MR COSGROVE: Thanks, Ashley. Could I ask you a little about this point of negotiating better market access in other countries. Can you give us any examples of instances in which Australia has been able to exercise that kind of negotiating power?

MR McCALLUM: Maybe I can answer this.

MR VAN KRIEKEN: Yes, sure, Bruce. Certainly.

MR McCALLUM: To give you some background, the council of which I'm a member is heavily engaged in the trade negotiation process. We've just returned from Seattle and can give you some anecdotal stories about that if you like. We've been in discussions on tariff liberalisation for quite a few years. We started with an initiative in APEC which we call the APTIC, which is the ASEAN - Asia Pacific Chemical Industry Committee, and it's an adjunct to the general global trade committee that Ashley spoke about, and we tried to negotiate access under APEC for the chemicals.

We're one of the few industries - and I suppose what we're saying here is that if it should be concluded that the 5 per cent general tariff be eliminated, that may be well and good for many industries that do not have global arrangements in place to eliminate tariffs, but you're really spiking our arguments if we go into these negotiations with nothing to argue, no negotiating coin, so to speak.

Now, under the APEC forum you may recall that there were certain fast-track liberalisation sectors identified. There were nine, from memory, and chemicals was one of those, and subsequently at KL, where we'd hoped to get agreement, for various reasons that I won't elaborate on, it failed, and the whole thing was delegated off to the WTO, so we went to Seattle where similarly the ATL - that's now become the accelerated tariff liberalisation agenda, so to speak - was being pursued rather vigorously by the United States in the Seattle negotiations, but we all know what happened at Seattle.

Now, that doesn't mean we've given up. We have, I guess - if we were allowed to do it ourselves, put it that way - a global agreement to eliminate tariffs, first of all to bring everybody to the CTHA - that's the Chemical Tariff Harmonisation Agrement that was in the Uruguay round - and that's fully implemented in 2004. The difficulty with that was that that was negotiated really amongst the quads and didn't embrace the ASEAN countries, and so the first objective was to bring all countries to the CTHA level. It actually spoke about - 5 or 6½ per cent. It's usually 2004 end point. that was the first purpose of the ATL initiatives under APEC, and then under the WTO.

The second part is that we have a global agreement to eliminate all chemical tariffs by 2010, and what we need is a forum to do that in. Now, I don't know your personal history but if you're engaged in trade negotiations you often find yourself a minor player in the big picture. In other words, even though the industry itself has sat down and worked out - and, I must admit, with a lot of difficulty and a lot of time spent - an agreement on elimination of tariffs, when you put those to your national governments, they say, "No, this is part of the overall single-undertaking concept.

We must put that into the big negotiating pool and see what we can get for it," and hence we find ourselves in that position.

We'd hoped to follow down the track of such things like the ITA agreement, right, which you are aware was a similar initiative, and that was done in Singapore. We went to Seattle with the hope that we could do the chemical thing under the same sort of negotiating arrangements but of course Seattle was very complicated because of external factors and so on, which you're probably well aware of. But it remains that, okay, regional trade forums that Ashley mentioned - the WTO has mandated to have another ministerial in two years' time. We see no reason why we cannot again pursue that or that we can do something outside maybe a ministerial round. I think we've got to take our tariff gains now where we can get them, and let's explore all those opportunities. That's why we say the big picture doesn't look good. I mean, Australia has got very little left to trade off in the way of market access tariff negotiations.

MR COSGROVE: Although our bound tariffs are still higher.

MR McCALLUM: Yes, the bound tariffs are still higher but, you know, I've been in this caper for 20 years and while binding is - yes, it signals a commitment, etcetera, people really talk about what your applied rates are going to be and what gains can be had by lowering the applied rates.

MR COSGROVE: Yes. I guess I'm still wondering, though, Bruce, what it is in the way of national bargaining power that Australia can effectively utilise, even in the context of chemicals. For example, if in the year 2004 the CTHA sits down again and says, "Okay, we're going to look at our agreement to see if we can take things further," would you expect that a statement by Australia - alone I'm talking about now, you know, our national bargaining power - that "We won't go to zero unless you other guys in the agreement will go to zero" would have any significant effect, and I'm looking at a group of members which includes the European Union, Japan and the United States, just to take the big three. Or to put my question another way, would Australia's program of scheduled tariff reductions, which was completed so far as your industry is concerned, in 96 have had any significant effect on the outcome of the CTHA agreement as it presently stands? In other words, if we had said we're not going to complete, let's say the last stage of that schedule of tariff reductions, do you think the CTHA would have not come into place?

MR McCALLUM: The CTHA, as I said, was negotiated by the quads. All right?

MR COSGROVE: Yes, that's what I mean, it's the subject of - - -

MR McCALLUM: It was negotiated by the quads.

MR COSGROVE: - - - greater bargaining powers than our own.

MR McCALLUM: Precisely. Precisely. And I'm afraid that's still the position. Even in Seattle the EU/USA dialogue is paramount.

MR COSGROVE: Yes.

MR McCALLUM: Although with the neglect to consider developing countries' needs, I guess it's now probably going to refocus its approach - the WTO. But that aside, at the time the CTHA was done in the Uruguay round of course Australia's tariffs were already below the negotiated position that was done by the quads and so we became de facto members of the CTHA.

MR COSGROVE: Yes.

MR McCALLUM: But you've got to consider what's happened to the industry just prior to that when the tariffs moved from 15 down to five. That saw the chemical industry drastically restructure itself. It saw plastic manufacturers and resin producers turning towards exports. The export performance of the industry has been dramatic. So when we got a seat at the table, even though it was by de facto membership, if you like, it became very important for us, given the new shape of the industry, to seek these overseas markets.

MR COSGROVE: Yes.

MR McCALLUM: So that's why there's been such a lot of resources put in by PACIA in terms of these market access negotiations. Now, we need to be able to give our northern Asian friends something in exchange for their market opening commitments. This market is one that I think the Asian manufacturers have got their eye on. We're a sophisticated, Westernised type of society and we've got a lot of sophisticated products and it's a market that's quite desirable. And so if we're able to say, "This is our position. We're all better off if we're in a free tariff regime. We'll give away our 5 per cent and in turn you'll agree also to first of all come on board to the CTHA" - because this is the problem, as I said, with the CTHA. The ASEAN nations are not in the CTHA so we've got to give them some sort of incentive to get in, and those incentives are essentially a further freeing up of our market as an attraction.

MR COSGROVE: But wouldn't it be the case, though, that they'd be looking at larger markets?

MR McCALLUM: Well, they are of course, but they want to participate in this market too. It's a global thing. How can I explain it without being - the Asians, right, don't really understand the sophistication of trade negotiations. They are very much prepared to listen to Australia, we've found in our industry. We perform what you would call the honest broker role. They see the Americans as someone to be feared, I guess, and rather dominant, they see the Japanese as some other influence, and we in the Australian camp provide this sort of honest broker role in these negotiations. We're able to explain to them the intricacies, I guess, of such things as the WTO. I mean, they're not even fully aware of the dispute settlement processes, and their entitlements and all that sort of thing. We do a lot of talking to our Asian friends, and encourage them to join the CTHA.

But we have to have something to be able to offer as well. So in terms of trade weight, if you like, yes, the US markets are bigger, etcetera, and Europe is a bigger market, but our ability to influence the approach and the attitude and the decisions that come out of Asia I think is very much enhanced by our track record through APEC. We have developed that liaison. We were the first industry to really get it together in terms of talking to the Asian chemical industries, and we take this sort of chairmanship role on, I suppose, in these trade negotiations. Now, to be stripped of our one last remaining bit of a thing to offer, if you like, is going to leave us in a rather weakened position.

MR WOODS: Is there an alternative position that we could adopt in that circumstance, though, of saying, "Well, look at us, we've gone for free trade. (a) we believe in it; (b) we've done it. We've now got zero tariff. We've done it because it's good for our economy," and therefore you'd adopt a different negotiating tack than the one of, "We'll give up our last 5 per cent if you come into CTHA or whatever? Is there another negotiating position we could adopt if we did that?

MR McCALLUM: We're using all that. I personally went to the Asia-Pacific chemical - club, they call it - and gave a presentation on Australia's tariff history and how the industry had performed, the message being, "We didn't like the idea of it either for a while - the fact that we lost our tariffs of 25 and 30 per cent and then we lost from 15 to 5 - but look what's happened" and we put the figures out that show the industry structure, and we'd built more large-scale plants and got efficiencies and all that sort of thing, and the message was, "Don't be afeared. You don't have to live behind a tariff wall to be competitive and benefit from being in the chemical industry."

I guess the reception to that was good but you wouldn't say it was overwhelmingly carrying the day. At the end of the day they said, "What are you prepared to offer? Where are the real numbers?" So together with the Americans and now the Europeans we have been able to put together this global objective. When you think of trade in chemicals, it's second only to motor cars, and outweighs IT as well, so it's a huge trading bloc. I wouldn't like to see us in the position of losing our influence, which I fear if we don't have the 5 per cent chip in our pockets, so to speak; that we'll be a lesser player. That's the overall worry I have about losing the 5 per cent If we lose the 5 per cent the tariff concession system doesn't operate, I suppose, and hence the 3 per cent levy disappears.

What I'm saying is, we want both. We want you to at least hang onto the 5 per cent in terms of the chemical industry and we want you to do away with the 3 per cent, as Ashley said. And when you think about that of course in terms of where the GST hits in, you've got FAB plus overseas freight plus a tariff - say five - plus your 10 per cent mark-up for GST. I suppose you've been through all those numbers already. You know how the GST operates on imports.

MR WOODS: So your argument isn't strongly in terms of needing the tariff for the viability of the domestic producers, but more in terms of the way in which you can use it to broaden the scope of free trade internationally?

MR McCALLUM: Yes, that's precisely it.

MR COSGROVE: And you feel that if we're thinking about the CTHA that a decision by Australia to say to the ASEAN countries, as an example, that it will get rid of the 5 per cent tariff if they get into the CTHA would be sufficient to get them in? That we alone have that degree of bargaining power? In other words, the ASEANs wouldn't be worried about what other chemical producing nations were doing?

MR McCALLUM: It's water under the bridge, to a certain extent, right? We've had these negotiations, right? We've been able to say, yes, the USA, the Europeans, the Australian, Canadians all agree to go to zero, right?

MR COSGROVE: Yes.

MR McCALLUM: Now, Mr Asia - if you like - come into the CTHA. First come in so that you can come to the 5 and a half or 6 and a half per cent regime by 2004 or 2005 and then we'll work towards the elimination at 2010. We have done the negotiating thing. We've been in the room. PACIA have performed the honest broker role and, to that extent, I suppose if we turn around and say, "Well, we've done it already, it's going to happen in Australia," then I suppose they'll say, "Well, we'll take it."

MR WOODS: Do you expect any other countries - whether it be Canada or others - through your membership of ICCA to go to zero or significantly less than 5 per cent before 2010?

MR McCALLUM: No.

MR WOODS: Not one?

MR McCALLUM: No.

MR WOODS: Because Japan is already threes and fours, isn't it?

MR COSGROVE: Yes.

MR McCALLUM: I think there's a schedule there in our submission which gives you - - -

MR WOODS: It doesn't pick up the US or Canada, but it picks up various of the others.

MR McCALLUM: Yes, you can read Canada and the US into there as being at 5 and 6 per cent by the year 2004. For the Japanese non-tariff barriers were a much more significant feature of the talks than the actual tariff numbers, because the CTHA is equally strong regarding the removal of identified non-tariff barriers, and there are quite a lot of them in terms of chemicals in the Japanese market. So the Japanese have agreed to remove their non-tariff barriers under CTHA as well, and I think that's a more significant commitment by them than the actual applied rate.

MR WOODS: And the New Zealand rates?

MR McCALLUM: New Zealand has not been a significant player. They tend to leave the talking to us in terms of chemicals. I understand they're also thinking about eliminating their general rate, aren't they?

MR WOODS: That's why I was inquiring for this particular industry. I am not across in the chemicals specifically.

MR McCALLUM: No, not in chemicals. I think New Zealand general tariffs are up for elimination, aren't they, from my understanding?

MR COSGROVE: I wouldn't be surprised. Bruce, we're obliged in the course of this inquiry to take account of the effects of a possible tariff reduction on consumers and the community in general as well as on industries and their own employees. What would you say to the argument that consumers are paying more than they need to at present for chemical products of various types - users and consumers - and that that in itself should be a reason for thinking that the reduction in tariffs would make sense? You have said in your submission that the rate on imported inputs should be zero to - - -

MR McCALLUM: There are 50 million dollar reasons why that should be so, yes.

MR COSGROVE: - - - to help - yes, well, I haven't got a similar calculation on the output side as costs faced by users and consumers, but why should they not be able to obtain their supplies whether from local producers or foreign producers, also without the additional costs imposed by a tariff?

MR McCALLUM: I think to talk about prices in terms that they're influenced by a 5 per cent tariff is probably - what's the word I'm searching for - is oversimplistic. Prices are set - as Ashley said, the industry is a price taker.

MR VAN KRIEKEN: Most of our products are.

MR COSGROVE: That would seem by definition to mean that if we were to abolish the tariff the price that would apply in the domestic market would be the international tariff-free price.

MR McCALLUM: And it will be, but what I'm saying is that there are other factors influencing the price, other than the 5 per cent - exchange rates, for instance.

MR COSGROVE: Yes, certainly.

MR McCALLUM: When you're framing prices and you are considering import parity, factors such as exchange rates start to - I think they're a much more meaningful calculation than the 5 per cent. I don't think the presence of 5 per cent or the absence of 5 per cent will influence prices one way or another to any great extent.

MR COSGROVE: So what purpose is it serving for the producer? If it's providing no assistance against lower costs in the international market what are the producers gaining from it?

MR McCALLUM: I would think very little; very little to be honest. Of course I suppose you'll have individual manufacturers say yes, 5 per cent is vital to them and it is a significant margin these days when margins are thin and whatever, but when you think of the influence of exchange rates and other factors that set prices - and I'm thinking mostly of the incidence I guess of dumping onto the Australian market, too, which is - the margins could be quite significant there and overweigh a 5 per cent tariff. So there are many other sorts of influences like that that are operating in the market to determine what the import parity is and a comparative pricing situation for the local manufacturers.

I would not deny that there may be some manufacturers that think the 5 per cent is quite bold, and it probably is to some of them. But when you look at the big picture it's these other factors, such as the very, very low import prices and the way that they move so dramatically in terms of supply and demand. The industry tends to be very cyclical; you'll have oversupply. You know, people will build plants like crazy and you'll get long periods of oversupply and low prices and then in the cycle you'll get one or two years of shortages and high prices. They're the sort of factors that have much more impact on the local industries' position than that 5 per cent.

MR COSGROVE: And tariffs are unlikely to be able to offset those to any degree.

MR McCALLUM: Cannot, no. Cannot.

MR COSGROVE: Another aspect of our terms of reference concerns the budget revenue presently provided by tariffs. You make the point, as others have, that in connection with the 3 per cent duty applied under tariff concession orders at present, that it was applied at a time when the budget was in significant deficit and now the budget is in surplus so we can afford to get rid of it. Of course Australian federal budgets have been better known for being in deficit than surplus until relatively recent years. If the budget was to move back into deficit, as I am sure it will at some point, what would you suggest as the way of dealing with the revenue shortfall then? In other words, would that be a reason to impose a tariff duty again, or are there other ways in which you would see revenue being raised?

MR McCALLUM: I would think the government would probably hike the GST. I don't see that the so-called agreements that require all the states to sign off would be an impediment to that either, so I think that is much more likely a mechanism for handling deficit budgets than trying to go back to the old-fashioned days of imposing a tariff or a primage or something like that.

MR COSGROVE: Are you meaning to say that you think that the government would face little difficulty in raising revenue in alternative ways than a tariff?

MR McCALLUM: They don't seem to have any problem with a gun levy, and now the Timor levy - so, yes, I don't think they've got any difficulty with inventiveness in terms of revenue raising.

MR VAN KRIEKEN: The other thing to add on that is given the government's support of trade liberalisation and of ultimately removing tariffs, I mean, it would certainly seem to be a contradictory type role to make, to first of all scrap a tariff concession scheme and say, "We're all for trade liberalisation," but then suddenly impose it again. So I think in a government sense I don't see that the government would do that again. I think that would not get them a lot of political mileage. I think they would have to explore other avenues. Possibly one recommendation on that is that - there were very little studies done on any actual impact of the tariff concession scheme and what would happen if it was removed or if it was kept. I think possibly that is one way to look at that problem. But as I said, that would seem to go against the current federal government support of trade liberalisation, to suddenly whack 3 per cent tariffs on again.

MR COSGROVE: That's a logical point.

MR McCALLUM: One of the things that the issues paper raised was how do you find those historic remnants of protection that are there in 5 per cent where the local manufacturer has now disappeared - and actually referred to a few examples that we know of first-hand. The 5 per cent is a residue of a 15, or maybe even a 25 at some former point in time - yet it's filling no purpose in terms of other than revenue raising.

But I think, if I remember the tariff concession system sufficiently, with every request for a tariff concession order it requires a classification to be done of the goods to determine whether or not - you know, it's carrying a rate anyway and you need to go through the process of framing up a tariff concession order. So I think if the government was to do some research itself it could look at the tariff concession schedule of goods and that, I think from memory, is identified only at the first four digits as you go through the whole schedule. You need to go further down to get the actual classifications.

But if you did that and then you measured the weight of product coming through under those tariff concessions and then you looked at how often the substantive rate was applied, you may find that 99 per cent of the volume of trade coming in under that tariff classification was under the tariff concession order, which would indicate to you really that that was an old remnant and could be done away with. I think that's what we're advocating in our submission here.

We had difficulty, apart from those few examples we gave you, of saying - you know, in this huge scope of even the chemical industry there are manufacturers where manufacturing activities are no longer performed in Australia. But I think if you did that analysis you'd be able to identify those 5 per cents, if you like, that are really decorative and nothing more. We're advocating that they should be removed, of course.

MR WOODS: Your submission goes through some of the restructuring that's occurred as a consequence of the previous tariff reductions, together with globalisation, etcetera. Where do you see the Australian chemical industry heading over the next - take to 2010. Is the process that you've outlined here likely to continue, or has it got down to a stable base? What's the outlook for employment and industry structuring?

MR McCALLUM: I think you're seeing at the moment quite significant rationalisation of the chemical industry, especially what I'd call the heavy end: where you used to have three or four polypropylene manufacturers you've now got one; where you had two PVC manufacturers you've now got one; where you had I think three or four polythene manufacturers you've now got one. I think once that phase has been completed and the mergers, if you like, are put into place and things settle down and the efficiencies of those initiatives start to unfurl, the industry will then start to examine where it goes, because for the most part that heavy end is typified by plants that are probably nearing the end of their economic life and decisions will have to be made about investment.

PACIA commissioned a study a year or so ago by Access Economics which identified significant investment proposals in place and they were given to the Mortimer inquiry, etcetera, about what was needed for these investments to proceed. They still remain there I think as bright opportunities for Australia to take advantage of its natural resource base, particularly on the North West Shelf, and I guess it's fair to say rely on some sort of industry policy support approach to proceed. What form that will take will vary according to the project that's up for consideration, but I think that's the next phase we'll see. Hopefully the industry will take these investment decisions and we'll see in the next 10 years or so significant investment.

Some of it I think has been deferred because of the Asian crisis. Some of these larger-scale petrochemical plants that were just about to be seriously, I suppose, put forward took a bit of a step back when the Asian crisis hit and there was uncertainty about markets for these products which essentially were in Asia, in terms of market opportunity, because the scale of plants that you must now build in the chemical industry means that you need significant export markets for their viability. The Australian population is not sufficient to sustain a strong domestic market and you can export, you know, your last 10 per cent or something. It tends to be the other way around. It's 60 or 70 per cent exports and maybe a 30 per cent domestic market profile.

So those things I think are just on hold at the moment and we are watching to see the outcome of the Asian recovery, how strong it is, what the ramifications are for investment and so on. But the basic numbers still stand up. We have still got the raw materials, we've still got competitive advantage in processing those raw materials. We've certainly got the technologies to use, and yes, I would think that, as I said, when the dust settles in Asia we'll see some investments.

MR WOODS: And in all those decisions the 5 per cent tariff doesn't weigh - - -

MR McCALLUM: I wouldn't think it would weigh very heavily, no, for all the other factors I mentioned before.

MR WOODS: Yes, sure.

MR COSGROVE: This industry is pretty capital-intensive, isn't it? Has technology moved in such a way that it's increasingly capital-intensive, or is there not much change there?

MR McCALLUM: Technologies are improving all the time and computerisation and all that sort of thing. It's probably meant that in terms of manpower there's less manpower. All that's, as you said, been capital-intensive. I think the trends are still that way. I don't know whether there are any great quantum steps to be done in terms of automation or technologies that are going to mean that you won't have anybody there in the plant room.

MR COSGROVE: It's more marginal change.

MR McCALLUM: It's more marginal, yes. That's just an observation, and you'd need more expert advice from people better qualified than I am, but that's my sort of observation about it. One factor I'd like also to mention is that outside of the CTHA and the global initiative to go to zero tariffs we have got some what we call early harvest proposals prior to 2010. These are zero-for-zero initiatives, and they are in fertilisers, and there's global agreement in fertilisers and there's global agreement in crop protection products also to move immediately in 2001 in crop protection products to zero tariffs. So that's something we've been working with as a sort of subset of the overall chemical industry which embraces, as you can imagine, quite a multitude of different sorts of chemicals, ranging from petrochemicals to basic chemicals, to sophisticated end products, etcetera.

MR WOODS: Who are the signatories to that agreement? Is that global or is that just a few players?

MR McCALLUM: The zero to zero?

MR WOODS: Yes.

MR McCALLUM: That has been agreed to by what they call the Global Crop Protection Association, which embraces the world's producers of crop protection products. This is quite a significant initiative if you consider the impact on crop chemicals in the farming sector. The poor old farmers are getting it pretty tough in nearly every country in the world that you look at, and that was another one of the initiatives we took to Seattle; was the zero-for-zero deal in crop protection products. But, as I said, we're embroiled in the greater trade-off mess and where we'd hoped for some sort of - we saw that as a very deliverable thing for the WTO to do in Seattle; to get up and say - you know, there might be big problems with agriculture and trade-offs, etcetera, but here is something that would signify the WTO was on its right track, etcetera, and to be the forum where the zero for zero on crop protection chemicals could be achieved.

So it was very disappointing in lots of ways in Seattle for the chemical industry, both for these early harvest things like the zero for zero and adchem and the overall broadening of CTHA and the agreement to go to eliminate tariffs in the industry completely. So I guess having done the hard yards, we're just looking for someone to give us the forum to sign the bindings and whatever. It seems incredible that these other things sort of interfere, if you like, with something that we've worked so hard to get agreement for. So it's quite disappointing.

We hope that we don't read your issues paper also - and I refer to the statement on page 6 which talks about the tariff concession system and says as you get down to lower rates of duty the need for a TCS or any other sort of system becomes less and less, and then the last sentence says, "This suggests that, if there are general tariff reductions, these concessional arrangements possibly should be terminated," and the bit that really grabs me, "even before a universal general tariff or zero is reached". Now, what does that mean? Are you going to have a 5 per cent revenue for a while and whatever? How would the industry interpret that?

MR COSGROVE: Page 6? I can't find the words you've been reading.

MR McCALLUM: Page 6 of the issues paper and under the box it talked about the concession arrangements.

MR VAN KRIEKEN: Actually it's page 10, I think.

MR McCALLUM: I might have the Internet page.

MR VAN KRIEKEN: It's actually page 10 of the report - - -

MR McCALLUM: Is it?

MR COSGROVE: Well, it seems pretty logical to me that if the general tariff rate is near zero then the assistance value of a tariff concession order gets pretty close to zero.

MR McCALLUM: That's true.

MR COSGROVE: That's what we've said, and then you say, "This suggests that, if there are general tariff reductions, these concessional arrangements possibly should be terminated even before a universal general tariff." I think it's simply saying that let's say for argument's sake that the general tariff rate declined from 5 per cent to 3 per cent or 2 per cent, then in the first place the value of the assistance available is reduced, and the administrative compliance costs, which we've mentioned elsewhere in the issues paper, associated with making an application for a tariff concession order might well not be worth the candle.

MR McCALLUM: But the timing is the thing - "before a universal general tariff of zero is reached".

MR COSGROVE: Yes.

MR McCALLUM: So is it proposed to scrap the TCS system and then - - -

MR COSGROVE: No, there are no - - -

MR McCALLUM: - - - at 5 it's reducing to 3 or maybe to zero.

MR WOODS: Your timing is the point, and there we're saying that if the general tariff, for instance, went to 3, then that might be also an appropriate time to start questioning whether the administrative cost of having a TCS is worth it because of the - - -

MR McCALLUM: But you've actually got to have that 3 in place.

MR COSGROVE: Certainly.

MR WOODS: The timing question there is before you actually get to zero on your general tariff, maybe the TCS becomes an unviable administrative burden.

MR COSGROVE: This is a question, remember. This is not a conclusion.

MR WOODS: Yes, happy to have your views.

MR McCALLUM: Yes, well, my views are make pretty certain you've got the rate in place before you scrap the TCS system.

MR WOODS: Would I also take it from your evidence, particularly your views on the value of the 5 per cent, that a phased reduction really wouldn't carry any merit or benefit to the industry; that if you went from 5 to 3 to zero, you know, if 5 in itself is not of any great significance, then doing 5 to 3 to zero might be merely dressing and not substance?

MR McCALLUM: I'd say why worry? Why worry phasing? I mean, for God's sake, if you're going to slash, slash.

MR WOODS: Whether 5 is slashing anyway.

MR McCALLUM: Death by a thousand cuts or something. If I could criticise your forebears and whatever, which I'm happy to do - I don't often get a chance to do it - - -

MR COSGROVE: In a respectful way.

MR McCALLUM: In a respectful way - we've seen the Industry Assistance Commission look at manufacturing tariffs for years and years, and the effect I guess on the manufacturing sector has been dramatic and there are probably other people that can give you chapter and verse about that. But if there is one criticism, I think it was that the structural adjustment that accompanied these changes was not very carefully thought out, and we've lost in our industry many many segments of it that would still be viable today if we'd had a better structural adjustment plan. Apart from using the technique of phasing tariffs there was nothing else really considered in terms of structural adjustment, and I would hope that - - -

MR COSGROVE: Well, there have been some very big adjustment plans for certain industries.

MR McCALLUM: Yes, for TCF and motor vehicles and whatever. Yes.

MR COSGROVE: Steel.

MR McCALLUM: Yes.

MR COSGROVE: They haven't seemed to have worked very well though.

MR McCALLUM: No. I'm not able to comment on those industries, but from the chemical industry point of view it just seemed that the - you see, once you signal a tariff cut from 15 to 5, even though you step it down if you like, people really start to think in terms of 5 investmentwise and pricing strategies and all sorts of things. That's why if you can swallow 10 per cent like that, or 25 to 15 or 30 went to 15 or whatever - I think you're just playing with the edges when you're talking about phasing it around the 5. As I said, look at the exchange rate.

MR VAN KRIEKEN: I think the point we're trying to make - and it's up to everyone else how much weight they put on it - is that there are tariffs now that you can phase out, if you like, if the government wants to be seen as phasing out tariffs - the TCS and these tariffs on goods that have historically been imposed but are no longer levied. I think what we're saying is do that, but retain the other tariffs to give us some weight, even if it's a minimal weight, in further negotiations. If suddenly tomorrow the government scrapped all the tariffs, then if we want to get increased market access into China or India we're left with the simple argument of, "Well, we did it and it worked for us, so you do it," but if they don't do it, effectively whilst our domestic industry may benefit, there has to be consideration given to what then happens to our export industries if they're not given a reciprocal arrangement, if some of these other countries, particularly the ASEAN countries who are becoming increasingly I think important for the industry and also becoming increasingly competitive with the Australian industry - so I think that's the point we're trying to make there.

MR COSGROVE: Yes, I understand the point you're making. But at the same time, bearing in mind the broader nature of our terms of reference, we need to keep constantly in our mind that a reduction in the price of a product like chemicals which is an important input to many other industries in the economy will enable them to be more competitive in export markets. There may still remain questions of access to those markets, it could be important in some cases, but these indirect effects of the tariff are others that we need to be aware of, as well as the direct ones, and we appreciate the point you're making on behalf of your association.

MR McCALLUM: This GST is going to hike the import price. I don't know how many people realise it but what - - -

MR COSGROVE: Well, it will raise all prices, yes, in a one-off - - -

MR McCALLUM: Right, but the price of imported goods that - this country is now firmly fixed on imports. Let's face it, when you consider that the 10 per cent is going to apply to the cost of the goods plus the freight, you know, for the first time we've really got a tariff on freight, if you like; the cost of the goods and the freight, any residual customs duties that are lying around, all uplifted by 10 per cent. I don't know whether the media commentators on the GST are onto this yet or not, but they should be starting to worry about how many imports come into this country of manufactured goods that are going to be impacted by that formula.

MR COSGROVE: But that will be - - -

MR McCALLUM: Offset by the wholesales, yes.

MR COSGROVE: Well, apart from the wholesale sales tax removal, it will also, by the value added nature of the GST, mean that somebody using an imported product as an input will be able to reclaim the amount of GST paid on that imported input.

MR McCALLUM: But who's going to pay it in the long run?

MR COSGROVE: The final user.

MR McCALLUM: That's my point, yes.

MR COSGROVE: Yes.

MR McCALLUM: And that's what I think needs to be a bit more - I mean inadvertently, if you like, that formula is going to provide protection.

MR COSGROVE: No, because the tax applies equally to foreign products and locally produced products. In fact the main competitive advantage of the GST will be to mean that our exports - - -

MR McCALLUM: Get a rebate, yes.

MR COSGROVE: - - - are less heavily taxed than they have been under the existing system. I don't have any further questions.

MR McCALLUM: Thank you for your time.

MR COSGROVE: We thank you for coming along and helping us with this inquiry.

MR McCALLUM: It's been very interesting.

MR COSGROVE: Thank you. We'll break for lunch, and we're resuming at 2 pm.

(Luncheon adjournment)

MR COSGROVE: Our next participant is Qenos Pty Ltd. For the purpose of the transcript would you each please identify yourselves and the capacity in which you're here today.

MS WILKES: My name is Fiona Wilkes. I am Qenos's government relations adviser and I'm here just offering guidance.

MR COSGROVE: Sure.

MR BELL: Steve Bell. I am the general manager of commercial for Qenos.

MR COSGROVE: Fine. We thank you, as we have others, Steve, for providing us with a submission. Before we discuss it, are there any points you wanted to make?

MR BELL: I guess just really summarising the position we put in the submission. Qenos is a new company, although the antecedent companies that made it up have got a long history in the Australian industry. It was formed 1 July 1999, about six months ago, and it was really the last stage of the consolidation of the Australian polyethylene industry. That was the putting together of Orica and Chemcorp, their assets at Altona for Chemcorp, which was a Mobil-Exxon joint venture, and the Orica petrochemical assets at Botany in Sydney, so similar to what's happened in all polymers in Australia - polypropylene, PVC and also the styrenics.

The polyethylene industry has rationalised from several small-scale producers into typically one more significant-scale producer, and really our position is that we believe that currently Australia has a very competitive tariff position relative to our competitors and our trading partners and we'd like to see a situation where there's a level playing field as it were. We don't have any problem with competition provided it's on a fair basis, and so any move to further reduce tariffs from 5 per cent to zero we would like to see done in harmony with our competitors and trading partners.

Having said that, we support the position of removing the 3 per cent tariff which was introduced three or four years ago - - -

MR COSGROVE: 96, yes.

MR BELL: - - - when the government came on, yes.

MR COSGROVE: Okay. You refer to this notion of a level playing field and we have been asking some earlier participants about similar submissions which they have made. Let me see if I can ask you about it too. You have a table here at the top of page 3 of the submission which shows for several commodities the prevailing tariff rates in other countries. Now, they're quite disparate, ranging from as low as zero in the case of one product in Japan up to 40 per cent for a couple in Indonesia. How would you see this level playing field being put into effect in practice? Do you expect each of these countries to move sort of in parallel even though, as I say, some have tariffs as high as 40 while others have quite low tariffs?

It's a practical policy issue I think. The notion of reciprocal or multilateral tariff adjustments seems simple as a concept but how you would actually do it I don't know, unless everybody makes a big jump from where they are to zero, which would mean a much bigger jump for some than for others and, for that reason alone, probably unlikely to occur. Have you given any thought to how this would actually be implemented - if you wish to go that way, that is?

MR BELL: I guess I would make a couple of comments. Firstly, these tariffs we see here are in terms of a duty or whatever that might be applied on imports in a particular country and if you look at the countries listed there, we would argue this is one form of tariffs that's operating in those countries. Some countries have - I mean, trying to export into Japan, which we have done both successfully and not so successfully - I would argue that there are other barriers to entry that countries can put in place anyway, so this is only one component of it. But our view would be that - and clearly it's part of these global agreements that have been negotiated - we would be expecting that signatory countries, if you like - and many of these countries here are starting to fall into line with many of these agreements, often to gain entry to markets and what have you - would be making commitments to bring their tariff regimes into line with, I guess, a broad program that would be agreed. We're seeing signs of some of that now.

If you look at a couple of those countries there, for example Malaysia and Indonesia, typically for the types of products we make those sorts of tariffs, 30 and 40 per cent, would be introduced at the time of commencement of a new production facility in those countries, where previously they mightn't have had one to protect the local industry. Now, I would argue a 40 per cent tariff regime is a very high wall to jump over.

MR COSGROVE: I agree.

MR BELL: In the industry we're in, if you look at the investment required to construct a petrochemical facility of this nature, you're talking - you know, replacement on the assets we have got - in the order of 2 to 2.5 billion dollars, so it's not an insignificant investment that one makes in these facilities anyway.

MR WOODS: Just picking that up, you make reference to the Chemical Tariff Harmonisation Agreement and, as we understand it from a previous witness, there's considerable effort being made to bring a number of these countries into that umbrella by 2004 or thereabouts, but that's an agreement that involves the US and Japan and the EU and others. What does our 5 per cent tariff weigh in those negotiations? Is us having that some significant part of the negotiation process in reality? From our perspective it may look significant but from their perspective when they're negotiating with those countries and those industries, how important is our 5 per cent?

MR BELL: Well, if you look at history - and I think history is a pretty good predictor of likely future performance - I think these sorts of things actually give us credibility. They bring us at least a seat at the table. We've got a bargaining chip to negotiate with and potentially help to open up markets with. So, if nothing else, it gives us some credibility and a seat at the table to have some influence in this.

Now, if you look historically - I mean, as I understand the current round of trade negotiations on agriculture, Australia has in the past and I think in the future can play a strong influencing role. I accept we're a pretty small player in the overall scheme of things but that's not to say that we can't strongly influence some of the outcomes that can be generated here. So it gives us a bargaining chip, I think.

MR WOODS: I agree with part of your response in the sense that Australia has on many occasions played a much greater role than its market share would suggest, and that's very important, but in the case of this one for instance, although we were party to the process in fact our tariffs were below what the harmonisation level is predicting, so we didn't need to be above and offering something to come into it to play a part in the process. In many other instances, again, we haven't had to give something away. It's just that we have a capacity to provide an interface and to take a role in negotiations and I'm not sure that the 5 per cent gives us significantly greater capacity to play a role. In fact one could argue perhaps that having demonstrated that unilaterally we move to a lower level because we saw it as good for our economy, if that's what the analysis would demonstrate - could be seen to be just as important a part of our negotiating process as giving away something that we currently have.

MR BELL: Yes, although I guess I prefer to look at it as: it gives us something to trade, to help or assist with opening up markets. I'm not suggesting we need to be at a higher level. I think what's happened over time with the local industry here in coming down from - we were up in the region of the sort of numbers we're talking here, 30 to 40 per cent - has been good for the industry. If you look at our end of the industry, I guess the heavy investment in the petrochemical end - for many years I think we would accept that we hid behind - or we were behind fairly high walls or barriers and what's happened has been good for the industry, but I'm not sure that what we have done has been entirely out of line with the trend that has been evolving anyway and I don't think we need to be above necessarily to have that bargaining position, but I do think it gives us credibility.

I think Australia - we're not necessarily going to be leading the charge around the world here, but it does give us I think a very credible position at the table at least to be in the poker game, as it were, and have some chips to trade. We're not saying we want the situation where we want to have tariffs to hide behind as an industry. What we're saying is, as we phase the tariffs out let's do it in line with what the competition and our trading partners are doing.

MR COSGROVE: I may be reading more into what you've just said than I should, but if one leaves aside the bargaining coin point, would you see the tariff having any other value to the industry? As you said, you've gone through a period of tariff reductions which have been in the interests of the industry itself to make it more competitive. What is it about a further 5 per cent that would be any different in terms of its effects on the industry's competitiveness than the period you've been through, with more substantial tariff reductions?

MR BELL: Clearly I think there's a couple of issues. We need time to consolidate. We are six months literally into the last stage of the industry rationalisation. We have gone through, as an industry, a lot of rationalisation and structural change over the last few years. The industry basically needs to generate returns to reinvest, and that 5 per cent is worth $25 million to this business, the Qenos business, as it stands right today and basically we need time to consolidate and adjust.

We have a $100 million investment that we commissioned at Port Botany in Sydney in 1992 to make linear low-density polyethylene. That plant makes in the order of 110,000 tons of polyethylene which is polymerising and adding value to Moomba Basin gas reserves, so it's all value added on local petrochemical reserves. The local market for that product is in the order of 65 to 70 thousand tons, so we have some 40,000 tons of product that we are exporting into their region.

Now, for an Indonesian producer, a Thai producer, a Malaysian producer to export to this country, they have to pass a 5 per cent tariff barrier. For me to sell that product into those countries, I've got to get over a 20 to 40 per cent tariff barrier, which is impossible to do - well, almost impossible to do.

MR COSGROVE: So you don't export to Indonesia or Malaysia or Thailand?

MR BELL: From time to time we can place very small parcels, but we typically have to pursue markets where the tariff barriers are lower and we compete on a level, even basis.

MR WOODS: What is your percentage of your output exported?

MR BELL: In terms of polyethylene, as a business we make in the order of 400,000 tons and we export in the order of 40,000, so nearly 10 per cent.

MR WOODS: Is that common across the heavy end of the industry?

MR BELL: In the region or - - -

MR WOODS: Yes, in Australia.

MR BELL: Well, we're the only polyethylene producer. Montell, who are the local polypropylene producer, also export a significant proportion of their production, but again the polypropylene market is longer in production capacity than it is in market demand - than the polyethylene market.

MR WOODS: And is that 10 per cent - do you see that as growing or is that a - what you see - until there are some significant tariff changes in some of our more local markets, but putting aside those sorts of changes are you export focused or are you - - -

MR BELL: Our primary focus as a business is on the domestic stream or Australasian markets.

MR WOODS: Yes, Australia and New Zealand.

MR BELL: New Zealand we consider as part of that, and New Zealand is an interesting example. However, having said that, export is significant. We also export in the order of 40,000 tons of ethylene out of the Botany facility. The business has a strategy of growth and further consolidating and building its competitive position in the Australian market, and that was the whole basis and the strategy for forming the joint venture of the two organisations: to provide a foundation to give us the scale and the cost structure that allows us to drive further and further towards a more competitive position.

We have just approved an expansion of the Botany facility, or a de-bottleneck, that will further grow the capacity there, in the order of 10 to 15 thousand tons, and we have another expansion planned for two years out for a further 20,000 tons. So whilst the local market size continues to grow we're continuing to invest and work on growing the business and we're looking at niche export opportunities as ways of trying to maintain the business as well. So certainly while the focus is on the domestic Australian market, export is a significant part of the business.

MR COSGROVE: You mentioned the value of the tariff to you in terms of giving you time to consolidate and I guess become more competitive. Could you give us an indication as to how long you think that period of consolidation might be.

MR BELL: Clearly our preference would be that - if our competition and our trading partners went to zero tariffs tomorrow then I don't think we'd have a problem with that. Clearly we'd like to see it done in harmony with overall tariff reductions in the region. The Chinese, for example, have committed to significantly reduce their tariffs. China is a significant market in petrochemical plastics and the chemicals industry and clearly that's - in my view - a very positive and significant move forward.

MR COSGROVE: If I can revert to where I started with the practical difficulties of this type of approach, let's say that China went to zero on polyethylene next year, but Indonesia stayed at 40 per cent; what would your response be to that situation? Would you still say no to Australian tariff reductions?

MR BELL: China is a net importer. At this point in time Indonesia has got more capacity than it can utilise domestically and exports significants volumes of product. Indonesia has a very strong position for indigenous feed stocks. It's not just Indonesia; you've got the Malaysians, you've got a large petrochemical industry that's hiding behind a significant tariff wall. You have got the Koreans out there with enormous capacity and they're at an 8 per cent tariff regime. Our tariff regime here is in fact more favourable because we do it on an FOB basis, whereas our competition or most of the competition does it on a CIF basis, which in absolute terms puts in probably about a 2 per cent differential. So I would argue we've already gone a lot further than most of our competition.

MR COSGROVE: Yes, but I'm still trying to understand what, under this particular approach that you're advocating, would govern the point at which Australia might make further tariff reductions if the government so decided.

MR BELL: I guess in simple terms, parity with our trading partners and our competition, who in many cases are our fairly near neighbours.

MR COSGROVE: So countries such as China, Indonesia, Korea, Malaysia, Philippines, Thailand, would have to have their tariff as low as five.

MR BELL: We'd like to see it in line, yes. If you look at the Philippines or that whole Asian trading block as a interesting example - if you look at the Philippines which - for us to export to the Philippines we have to jump a 15 per cent tariff wall. If one of the Asian group, of which the Philippines is part - they've recently moved or announced within that block a 5 per cent tariff, so the differential tariffs - there's preferential treatment for trading blocks and what have you, and I think for Australia to view that we can operate in isolation to the rest of the world - particularly as the world is becoming far more global - I think we'd be naive to think we could do that.

MR COSGROVE: This could mean - at least if one takes APEC trade liberalisation commitments as the basis - a 20-year consolidation period because the less developed members of APEC, which include the countries in your table, have until the year 2020 to get to free trade. Would you still argue that you need a period as long as that to reach a point where you are internationally competitive and viable?

MR BELL: I'm not sure it's going to take until 2020.

MR COSGROVE: It may not, no.

MR BELL: It may be at some of these forums some more significant headway will be made more quickly. I think it's unclear as to what the impact of carbon credit trading and these sorts of things are going to be, as well, out of the Kyoto agreement. You know, what is going to be Australia's position versus some of these developing countries? Are we going to add another impost onto our industry that developing countries, or so-called developing countries, don't necessarily have to carry? That's a little far out for me to, I guess, make a comment with any degree of confidence. I guess I'm optimistic or hopeful that some of these forums will knock things into shape a little quicker than that.

MR COSGROVE: Where do the bulk of your exports go? You mentioned you get little parcels into some of these countries with high tariffs, but I guess your main export sales are in less heavily protected markets, are they?

MR BELL: Yes.

MR COSGROVE: Is New Zealand here categorised as an export market?

MR BELL: It is. We tend to view New Zealand a little bit as another state or a domestic market, if you like, but it's in reality an export market.

MR COSGROVE: So that forms part of the 10 per cent of your sales that you mentioned as exports.

MR BELL: Yes, it does, but it's not as significant as you might imagine. We don't necessarily place a lot into New Zealand, because New Zealand typically at the bottom of the cycle is the lowest priced, lowest return market on average and we tend to do a little better a little further afield. We're exporting pretty much these days to all areas of the world: into Europe, we're exporting into South America, South Africa, onto the subcontinent - India, Pakistan, Bangladesh - and we're also placing material into the region and from time to time we get the odd order into Japan as well.

MR WOODS: Are they opportunistic markets that arise for a period of time, or do you actually have long-term market supply arrangements? If you can place it into the EU, etcetera, given the competition around, then that suggests that if you're doing it on a long-term basis that you're very competitive at the global level anyway.

MR BELL: It's a mixture. Historically the strategy that we've adopted, because we have had a significant proportion of capacity that is in excess of the domestic demand here and presuming you run your plants reliably and are generating large core capacity - - -

MR WOODS: So your marginal costs - - -

MR BELL: It depends on where you are in the cycle. The petrochemical cycle is driven purely by supply and demand and the prices today are significantly better than they were, for example, in August 1998 when the polyethylene market went to the lowest point it had ever gone to. Our export strategy is really to identify niche higher value markets and not try to compete in the large volume commodity high-end, low-price part of the market. However, we do have a portion that is on what you would call a more spot basis. So we've had a strategy of really cultivating and developing long-term relationships and customers in niche markets and trying to build loyalty based on our quality, our service, our performance and the overall product offering that we've got there which makes up a lot of those elements. So it's a mixture.

MR COSGROVE: Are you managing to increase those exports to EU, South Africa, South America and so on, on a regular basis or not?

MR BELL: It depends really on what the pricing is and the situation of those markets at the time. At the moment - I mean, one of the most expensive markets in the world to buy polyethylene right now is the US market because the economy has been cooking along very positively for a number of years now, capacity is very much sold out. There is not a lot of material available for export and what is available typically is going to South America and closer to home. The Europeans operate a little bit on the same basis. Their economy and the market has been down quite a bit over the last few years, not going as well as the US.

In recent times Europe has tended to trend up and as Europe trends up we tend to get more inquiries from that part of the world. In recent times we've had customers that we were supplying maybe 18 months ago, 12 months ago, and then we lost our position and as recently as this morning we took an order with a customer that we haven't supplied for some time now, for several hundred tonnes. So it depends on where you are in the cycle, the supply and demand situation and what the situation is in those economies at the time.

MR COSGROVE: Would you see these markets as - thinking here medium term, you know, let's say five, eight years - as likely to be sufficient as opportunities for using your capacity which exceeds the local - the Australian demand for the products or not?

MR BELL: I think our track record would suggest that we were able to find markets when we've needed to. When the Asian economy collapsed and the financial meltdown took place, basically all of our export business was focused in the Australian-Asian-Pacific region, and overnight that whole region collapsed. The markets in many areas disappeared overnight. If they didn't disappear you couldn't be confident you were going to get paid for your product, so we very rapidly adjusted our export strategy to I guess meet some of those challenges. We found that by moving further afield we actually found there were some very exciting opportunities there. So I've got every confidence in the future we will have the ability to place those sorts of tonnes.

Having said that, depending on where you are in the cycle, typically the returns on export tonnes are not the same as what you have in your domestic market, and that's pretty much the way the world over in the petrochemical industry. Your domestic market will typically be the area that you get a better net back than you will on your export or your marginal tonnes.

MR WOODS: Were you looking to go through a significant reinvestment phase over the next decade or so, and in which case will it be predicated on meeting primarily the domestic market, or will you build in an export capacity in that reinvestment?

MR BELL: It will be typically predicated on a domestic focus. However, there will be a need to export from time to time.

MR WOODS: In terms of your pricing you are talking in your submission about - for business inputs - obviously talking gas and oil, but you're saying that they're basically at world parity pricing and therefore if you had a tariff reduction you're not going to get cheaper inputs. A bit further down you talk about, however, a reduction in your production would likely bring about a reduction in Australian LPG production which is currently related to ethane extraction of your feed stock.

MR BELL: Yes.

MR WOODS: Presumably they would have an interest in continuing production, given that you're a large end of their market. Are you suggesting that they would rather cut back production than renegotiate price? That's how it reads, but I don't know that that is - - -

MR BELL: No, really what I think we're trying to highlight there is that the direct benefit that this business brings in terms of both the use of indigenous feed stocks to value add degenerates depending on where you are in the cycle, in the order of 700 million to a billion dollars per annum of petrochemical plastics sales in the Australian market. If we cease to exist tomorrow then that would all be imported and go against the balance of trade. Clearly there's a lot of downstream benefit that we believe we'd bring to the local industry as well. One of the feed stocks we use is ethane which is generated out of the Moomba Basin. Orica in 96 commissioned a pipeline, a $250-million investment of several hundred kilometres across from that Moomba Basin to the Botany plant, and one of the additional benefits of that is that it generates additional LPG production as part of that process.

MR WOODS: I understand that process. What I'm having trouble understanding is that if you had to adjust pricing to cope with a tariff reduction that you would not be in a position to renegotiate pricing on some of your inputs on the basis of the existent or non-existent scenario as you've just put it. It's in combined interest to continue to exist and to continue to be viable.

MR BELL: Yes.

MR WOODS: The submission suggests that there is some absolute perspective taken there but I'm not sure that in market reality that would be the case.

MR BELL: Typically certainly our feed stock regime - we believe we buy - they are at world prices and they're tied to global markers, petrochemical markers. In fact we believe the feed stock contracts we have and the feed stock position we have - and they're all long-term contracts typically in the order of 10 years - - -

MR COSGROVE: With immutable price terms?

MR BELL: Yes, they're tied to markers. We actually believe that relative to, for example, the US gulf coast pricing for our feed stocks that we buy better than what goes into the US plants. So I don't think - in fact I'm very strongly of the view that there certainly isn't scope to just go and renegotiate down the price of the inputs, because if we thought we could do that we'd be doing that now, and we do it where we possibly can. There are some things like catalysts and what have you - the impact of the 3 per cent, for example, will be fairly negligible, but nonetheless something we would see as a positive. But the scope to negotiate down will significantly reduce - our feed stock position is not there.

MR WOODS: Yes, I don't think anyone is talking about significantly but if 5 per cent affects your ultimate viability on the tariff side - and I'm not sure that you're actually suggesting that - then I would have thought the producers would also have an interest in you remaining viable.

MR BELL: Yes. They also have the option of just feeding it into the domestic gas stream, too, in some cases. So they do have some alternative options for some of the feed stock.

MR WOODS: For some of it, yes.

MR COSGROVE: Could I come back to what you were telling us about your export markets for a moment, Steve. Clearly those markets are not permanently Rosey. You seem to suggest that you had some reasonable prospects there over the medium term. That then would seem to cast a bit of a question over why in the more highly protected Asian markets you would want to see a move to 5 per cent before any further move was made by Australia. Do you see what I mean? The basis of that argument I think is that our market access is restricted by some foreign countries, but if on the basis of our production capacity markets elsewhere in the world can be found to absorb that production, the sort of reciprocity argument seems to lose force. Do you agree?

MR BELL: From a marketing and business full-term perspective you're always also looking at the net-back, and it costs a lot more to freight material to South America than it does to get it up to Singapore.

MR COSGROVE: Sure.

MR BELL: Singapore has a petrochemical industry. They don't seem to need to put a tariff wall up to quite the same degree as Malaysia right across the strait. So I'm not sure I do agree with that. Clearly we would prefer to see 40 per cent become 5 per cent because it opens up new markets for us in the region here, closer to home.

MR COSGROVE: Yes, that's quite understandable. I would too, yes.

MR WOODS: You don't have Singapore in your table there but can you remind me of their tariff level?

MS WILKES: My understanding is it's zero with a 3 per cent GST.

MR BELL: That was my understanding.

MS WILKES: There's a note on there, "Tariff tables" for some reason.

MR WOODS: Yes, it's my understanding that it was zero, and I was just wanting that confirmed. And yet they're quite a viable and active exporter of product.

MS WILKES: Yes, they're one of the markets that - I understand they actually set themselves up differently in having a fairly aggressive export stance and export approach as opposed to a domestic approach of many other - - -

MR BELL: Because there is basically no domestic market in Singapore.

MS WILKES: And so hence and therefore the tariff situation really reflects the lack of domestic business to protect anyway.

MR COSGROVE: Yes. I understand the significance of transport costs and I agree with you completely that one would wish to see tariff barriers in all markets as low as possible. Yet it seems that if you can find markets which are profitable, of course - you can't sell on a long-run basis without profits - sufficient to absorb your capacity, then the fact that some parts of the global market are restricted substantially seems of less importance, anyway - I may not be putting as well as I might, but I can't see that if you're able to sell your product you should be overly concerned about the fact that there are some parts of the world where you find it very difficult to sell - I mean, having said, as I did, that you would want to see these barriers as low as possible everywhere.

MR BELL: Typically, if we were relying on running a business based purely on export, we wouldn't generate the returns that would justify reinvestment. The domestic market is clearly where the greatest net-backs and returns are for the business, and that's typically the case in the petrochemical industry in every part of the world.

MR COSGROVE: That leads me into the next area that I wanted to ask you about, and that is if what you've just said is the case, it would seem to suggest that there would be some significant savings available to the users of these products if we applied a zero tariff rather than a 5 per cent tariff. Now, as you've seen, I'm sure, in the terms of reference, we have to take account of the interests of consumers as well as industries. So why should we accord special importance to the consolidation adjustment requirements of producers such as yourself relative to the interests of the consumers of these products in Australia?

MR BELL: I guess my comment to that would be additional to the benefit that Australia gets from the value adding of indigenous materials to generate in the order of three-quarters to a billion dollars of direct domestic manufacture of what would be otherwise import material, additional to the spin-off effect downstream you get of the industries that then hang off that and prefer to buy locally, if they can buy competitively, and additional to all of the benefits that generates in terms of economic growth and activity in Australia, the engineering infrastructure and what have you that

that all supports - the tooling industry, etcetera, that comes off that, the supply to the automotive industry and other significant industries here.

MR COSGROVE: I guess a lot of industries could make similar claims even though some - - -

MR BELL: I was seeking to answer specifically - - -

MR COSGROVE: (indistinct) no tariffs.

MR BELL: - - - the question after that. What you're suggesting is - at a point in time might be true, but if you look at this industry, it's supply-demand driven and it operates on a cycle. Typically that cycle will operate in the order of a window of five to seven years between the start and finish of a cycle. Typically, the troughs are getting deeper each cycle and the peaks are getting narrower. But the local industry - and it's driven by global pricing, global supply-demand factors. Typically, at the top of the cycle the global industry does not go as high as what - - -

MS WILKES: The local, I think.

MR BELL: Sorry, the local industry doesn't go as high as what the spot and regional pricing does, so in fact at the peak of the cycle you typically cannot readily buy imported material in the Australian market. Likewise, at the bottom of the cycle, we're always working awfully hard to generate a value proposition - that the market is prepared to pay a little bit more than that import parity, if you like, for all the benefits of local supply - the technical support, etcetera. So at a point in time you might be able to argue, depending on where you are in a cycle, that there might be a short-term benefit. Over the life of the cycle the local industry, I would argue, actually benefits and there isn't actually a 5 per cent cost-benefit to be gained because the local industry typically offers - and the local supply base offers more stable pricing.

Whilst we're driven by regional pricing, we don't react to spot pricing, we tend to enter into longer-term contracts. We offer contractual arrangements that support the customer base to give them the stability of pricing, etcetera, that allows them to go out and compete - and not just in the Australian market, but in the regional and global market. New Zealand is a good example: when things get tight New Zealand pricing is the most expensive pricing in the region.

MR COSGROVE: Are you saying that if you look across cycles, despite the fact that we have a tariff, prices are lower in Australia than they are globally?

MR BELL: No, what I'm saying is at the top of the cycle that - - -

MR COSGROVE: We keep our prices below the global price, you said, at that point.

MR BELL: Prices typically at the top of the cycle will be often below what you can land it here - - -

MR COSGROVE: Yes, and at the bottom?

MR BELL: We will tend to generate a premium through the benefit of local supply over what you can land product here, because customers are prepared to pay for warehousing, for local representation, for technical support, for logistics benefits. We often support customers with financing and all sorts of things.

MR COSGROVE: So domestic prices are less volatile than global prices?

MR BELL: Yes.

MR COSGROVE: But on average over the cycle, are they - - -

MR BELL: We track the cycle. The Australian industry tends to mimic what's going on globally.

MR COSGROVE: Yes, but in a damped fashion which suggests, nevertheless, that the tariff does have some price-raising effect, again looking across the cycle.

MR BELL: That argument could be made at a point in time, but if you were right at the top of the cycle, and as you work through the cycle - it's not a static industry - then the history would suggest that the local industry - and it's again the case often in other parts of the world where there's petrochemical industry, because of the lag effect in being able to get your price up, the contractual arrangements we've got, and the fact that what we're measuring against is often spot regional pricing, opportunistic pricing - we don't market and price opportunistically, and therefore you would see - if local industry disappeared tomorrow, I think over the long haul the consumer would pay more because this is seen as an opportunity markets for exporters. Most of the exporters are not here for the long haul. The Koreans, for example - as soon as China is buying, the Koreans disappear because it's a lot cheaper and - - -

MS WILKES: To the importers, to here.

MR BELL: Yes. The focus is getting it across the strait into China, which is a $40 boat ride as opposed to sending it down here.

MR WOODS: You've painted a picture of pricing being subject to domestic cycles, international cycles, presumably also to exchange rate regimes. It seems that the 5 per cent tariff sort of disappears in amongst all of those other factors, that they're of such magnitude that the tariff element doesn't play a very large part in that process.

MR BELL: That's not the picture I'm trying to paint at all. I mean, in our industry 25 million bucks is not insignificant.

MR WOODS: No, I understand that part of it, but in terms of setting the price in the marketplace, that there are very large forces at play that determine where the price is at any one point in time, and that those forces are quite significant.

MR BELL: Yes. Our competitors are typically - who are the importers - placing their marginal toe in this market.

MR WOODS: As you do when you export.

MR BELL: Not into markets where there's a local industry. We're very careful to ensure that we don't - - -

MR WOODS: No, but you were talking about marginal pricing of your exports, as I understood it.

MR BELL: No, I was talking about exports not getting the net-backs. I'm not sure I ever said we marginally price. Sorry, you might have to - I've lost the track there. What was the focus there? It is significant.

MR WOODS: Yes. I was just trying to understand. In terms of setting of actual prices you've been describing some very large forces that cause prices to fluctuate and - - -

MR BELL: We're not cost-driven in terms of our pricing. International supply-demand and market pricing sets our pricing, not our costs.

MR WOODS: Yes.

MR BELL: So we don't have an add-up of costs, and add a margin. We're not in that industry.

MR COSGROVE: Doesn't the fact, though, that - as you just said - the tariff is worth $25 million to your company annually mean that it does raise prices? In other words, if you didn't have that 5 per cent tariff you wouldn't have the $25 million on our bottom line. How otherwise do you obtain that increment of profit than through prices above those which would otherwise be in your profit and loss account?

MR BELL: In the situation today - you go back 10 years ago and we've gone through a whole series of consolidation, what we're saying is a rationalisation and we're now attempting to consolidate. At a point in time, as I said, you could argue that there is a cost over the life of the cycle - - -

MR COSGROVE: But isn't it every year, though, Steve? If you're saying that this particular level of tariff duty adds $25 million to your profits, then that's not the case just today or next month, it's something which at least on average over a 12-month period is worth 25 million bucks.

MR BELL: Over a particular 12-month period that may be the case, but not every year is the same in a cyclical industry.

MS WILKES: It's probably more noticeable certainly the bottom of the cycle, as we are now - - -

MR BELL: And more squeezed at the bottom of the cycle.

MS WILKES: So there is - - -

MR BELL: Dumping being an issue - you know, if you don't have an effective dumping regime, then clearly that gets eaten at the bottom of the cycle anyway.

MR COSGROVE: So let's say the $25 million mentioned is a high level of assistance as compared with some normal level of assistance. I don't know whether you can give us an estimate of what you'd regard as a sort of an average or normal benefit derived from the tariff, but if the figure is significantly less than the 25 million, then one is inclined to ask what is the benefit of the tariff to even a producer such as yourselves. Do you see what I mean?

MR BELL: Without the opportunity to consolidate the business, and you wipe that sort of return off the business today, just like that, then our ability to generate the cash to reinvest in the business is significantly deteriorates.

MR COSGROVE: Well, I think you're agreeing with me, you see. You're saying that that's a real $25 million, that if the tariff was taken away tomorrow you would lose $25 million.

MR BELL: At this instant in time, that is our estimate of the cost to the business.

MR COSGROVE: Okay. Well, then, my next question was, if that's not the sort of normal or underlying value of the tariff to you, what is that value? Is it 20, 10, five?

MR BELL: Well, I'm not quite sure how to answer that question because if you go back to 1992 when Orica's polyethylene business was stand-alone, the business lost $22 million in that year. That was the last trough in the cycle.

MR COSGROVE: But it might have lost $50 million had the tariff not been assisting their profits.

MR BELL: I'm not sure what the number would be - - -

MR COSGROVE: No, nor am I, but - - -

MR BELL: If we hadn't done - - -

MR COSGROVE: Regardless of cyclical fluctuations - I'm sorry to interrupt - it seems to me the tariff is always there as an element of assistance. Now, sure, profits vary with the cycle, but the global market price is below - at least if you look through the cycle, from what you've been saying - below the price which applies in the domestic market.

MR BELL: No, not the global market price. An import parity landed price out of this region in the most recent time. You go back six or seven years, and we used to measure ourselves as an industry more against the US market, but, because of the changes in the US market in recent times, that is really not a relevant measure any more. So around the globe, where the competition comes from changes from time to time as well. Asia has emerged as a more relevant force in this region, whereas if you go back say to the late 80s, we probably tracked the US market.

MR COSGROVE: Okay, but you've still got some notion of - as you say - an import parity price, whether the Asians are setting the most efficient price or the Americans - it will change from time to time, but there is always some low-cost producer who is the sharp end of competition.

MR BELL: Or trying to (indistinct)

MR COSGROVE: I don't think they can do it on a permanent basis.

MR BELL: Well, these people aren't around permanently. We're aiming to be around permanently. That's our whole point. What we're up against here is often opportunistic short-term - sorry to cut across you there but - - -

MR COSGROVE: No, that's okay. Have you been pursuing with any success antidumping cases against such practices?

MR BELL: We have historically and are at this time pursuing antidumping where we believe that there is unfair, predatory competition.

MR COSGROVE: And have there been successful cases of that type?

MR BELL: We're in the process of prosecuting a case now. In the PVC industry they've had success, in the styrene industry they've had success, and the PVC compound industry is also at the moment prosecuting a case which I believe will be successful. It's similar in paper, in all sorts of areas. With the collapse in Asia, the need for hard currency, many of the Asian producers are not on indigenous feed stock. They're importers of crude oil based naphtha for their feed stock. Those contracts are written in US dollars. The Australian dollar is still considered a relatively attractive and hard currency. Our marketplace here is pretty sophisticated and typically people pay their bills so that environment seems attractive.

MR COSGROVE: Okay. Let me switch to another point. You have a little section on page 3 of your submission about goods with no significant production. Can you give us a more precise indication of what no significant Australian production means. Is it a loose form of say no local production or is there something different about no significant Australian production?

MS WILKES: I believe it's probably a loose form of no Australian production. I suppose part of what was in mind as those words were put together were the concepts of substitution of products as opposed to direct manufacture, and the cloudiness, particularly if you look at our rubber market, where we're making synthetic rubber - synthetic rubber can be quite easily substituted in formulation for natural rubber and, depending on what the price cycles are doing, the tyre manufacturers will make a tyre with a different composition depending on that. So the "no significant" was clouded in that way.

MR COSGROVE: I see. No, I don't think I have any further questions either, so unless you wish to tell us any more we'll finish this discussion.

MR BELL: I think we've made our point.

MR COSGROVE: Okay. Thanks very much, Steve and Fiona. I don't there are any further participants today, no. That concludes our hearing. We'll be resuming in Canberra on Friday. Thank you.

AT 2.53 PM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 21 JANUARY 2000

INDEX