SPARK AND CANNON

Telephone:

Adelaide	(08) 8212-3699
Melbourne	(03) 9670-6989
Perth	(08) 9325-4577
Sydney	(02) 9211-4077

TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

DRAFT REPORT ON GENERAL TARIFF ARRANGEMENTS

MR J. COSGROVE, Presiding Commissioner
MR M. WOODS, Commissioner

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON WEDNESDAY, 28 JUNE 2000, AT 9 AM

MR COSGROVE: Good morning, everybody. I would like to commence these public hearings on the Productivity Commission's draft report on the review of Australia's general tariff arrangements. As I think people will generally know, that report was released on 25 May and the main purpose of these hearings is to provide an opportunity for interested parties to comment on the report in general and of course in specific terms on the draft recommendations in it. I should mention that a transcript of these hearings is made to provide a record of our discussions. That transcript, as well as non-confidential submissions which have been provided to the commission during the course of the inquiry are both public documents and can be viewed at the commission's offices as well as at public libraries in capital cities.

Copies of those documents can be purchased with order forms being available from our staff who are here today or by contacting the commission's offices at a later date. Alternatively they can be viewed and obtained from the commission's Web site, the address of which is in the draft report itself. We need to report to the government on the outcome of the inquiry as a whole by late July. For people who are not familiar with that stage of the process, like the draft report, the final report is not immediately released to the public. Its release is in the hands of the government which ordinarily makes it available at the time when it responds to recommendations in the report.

We have a reasonably full list of participants today, I'm glad to say. We have planned a layout of witness times for each of those who have indicated they would like to present evidence to us. I think we'll be able to get through the day's proceedings quite nicely. It's our general intention to conclude around about 5 pm today. We have to move to Sydney for a further set of hearings up there tomorrow morning. So with those procedural remarks I would like to call our first participant this morning, the National Furnishing Industry Association of Australia. Mike, as in the past if you wouldn't mind, identifying yourself and the capacity in which you're giving us evidence today for our transcript thanks.

MR RADDA: Mike Radda, chief executive of the National Furnishing Industry Association.

MR COSGROVE: Thank you.

MR RADDA: I guess I would like to start and say that on behalf of the Furnishing Industry of Australia we find the draft report to be quite poor. It's our sort of belief that the conditions of analysis in this report almost appear to be structured to reach a preordained conclusion. We think the four options that you have arranged for tariffs are, (a) too restrictive, and (b) have been used to support the conclusion, but of more concern for us is the analysis that has been undertaken to enable you to reach the conclusion. On page 12 of the report in the introduction you have said, or the statement is made:

> There is little significant effect on labour in any industry or region is likely.

Our research shows which we have tabled to you and discussed at some length is that's not the case for our industry. The analysis that we believe has been undertaken by the commission to reach that conclusion hasn't been appropriate, or hasn't been undertaken at an industry level. From what we can ascertain from this report it appears that the commission's analysis has only occurred at the broad categories. It has used broad ABS groupings which we have discussed before. Some of the table have been presented in the report, say, table 3.2 and 4.1, you have used different groupings, so for us to undertake a comparative analysis is not possible.

Thirdly, I guess it comes back to the issue of what we consider to be flawed ABS data. From our industry we have shown these failings previously. We have shown that in our industry there isn't significant ABS data on the 70,000 employees in furniture manufacturing. We have said that they're picked up under "other" manufacturing, and that as a consequence you can't undertake an analysis or make a conclusion about a significant effect on an industry. The issue for us is how do you know what the effect is on the furnishing industry. If, as you state in your report, the 70,000 employees of the furnishing industry are only 19 per cent of the other manufacturing group, how are you able to make an assessment of industry effect? In short, it's our conclusion that you don't.

As a consequence it's our conclusion that the report needs to be redone so that the options for tariff arrangements are broader and enable some sort of specific responses to industries, and that in the key issue that the key industry analysis is undertaken so that you can get justifiable conclusions for industries such as furnishing.

MR COSGROVE: That's it?

MR RADDA: That's it.

MR COSGROVE: Thanks, Mike. Well, preordained conclusions, I don't think that's the approach we adopted when we commenced this inquiry. Indeed, as we have said in the final chapter, the balance of benefits and costs, which would we think flow from removal of the 5 per cent general tariff, is a pretty fine one. For that reason, as we have said, we don't see any single policy option here which stands out as being clearly superior to any other. At the level of particular sectors such as yours, I mean, it is possible, we would not deny, that the broad industry results reported, and you're right to say that they are at a fairly broad level of aggregation, largely because the analytical tools available to us I'm afraid don't allow to delve at a highly detailed level, but it's possible at that level that there might be somewhat more adverse circumstances resulting from removal of tariffs than on average for any particular broad sector. Equally they might be somewhat better results than the average indicates.

We were conscious of course of the points that you made to us in your earlier submission when we were preparing the draft report. I know that we had a particular look at furniture per se. You're aware, I'm sure, that it's caught up in the broad industry classification with a number of other groupings, so you had pointed out to us initially, Mike, that the furniture industry was lumbered with the particular drawback of having to pay inflated prices for your textile inputs, for example, because of the continuing high level of tariffs on those, so we thought that might have some significantly different effect on your particular area as compared with, let's say, the generality of manufacturing industries under review. In fact, to the best of our ability, that analysis showed that the removal of tariffs would, in terms of effective assistance provided to your industry, have very much the same effect as the indicated effect on other manufacturing industries.

To put it more simply, at present the estimated effective rate of assistance with the 5 per cent nominal general tariff is about 3 per cent across the manufacturing sector, leaving to one side the passenger motor vehicle and TCF industries which of course continue to have higher tariff assistance. Removal of the 5 per cent tariff, according to our analysis, essentially removes that 3 per cent level of effective assistance. It goes to zero. We had thought that it was possible in the circumstances faced by furniture producers that the result of removal of the tariff might have been a possibly significant negative level of effective assistance, you know, let's say minus two or three or something like that, but the analysis in fact showed a figure very close to zero. It is a slight minus. I think it's reported, if not in our draft report proper, in the modelling supplement which relates to the draft report.

As I say, that's the analysis which we have been able to do with the analytical machinery at our disposal. We are of course interested to hear your own assessment that I assume you would say that the likely effect is more adverse than that, that you - - -

MR RADDA: I think we have given previous data to show that we have got some work to show that effect. I guess it comes back to the fact that when there is a situation where an industry is using inputs which have high tariffs which will remain at a high level, that that perhaps is a special case, and that for us it's inappropriate just to leave that grouping in another manufacturing grouping where, on the data that's presented here, it can range from as low as 19 per cent to that group and come up with a broad answer that says, "Oh well, the net effect is minimal." The other thing is in an industry analysis if there is a possibility of a factor more work needs to be done. Okay, I understand you have limitations in terms of your access to data because of what's available from the ABS and the modelling you can do, but if that's the case, then it's still an inappropriate conclusion to come up and say it's of little significant effect in any industry.

It seems to me to be more appropriate to say, "You're unable really to ascertain what the effect will be on the furnishing industry." You are unable, with the amount from the ABS, to make any real value on how important upholstery products if you like are key leaders or drivers of the industry in Australia as determined to others, and so what you're doing is you're taking - okay, they're still broad classifications but they are again broad classifications. There are a lot of timber products and others. I mean, work that we have done - - -

MR COSGROVE: Yes, but as I was saying, we have been able, notwithstanding the comments I made earlier about the limitations of the data - we have made a specific attempt, not undertaken generally for other industries for the reason I mentioned. We were thinking that your part of manufacturing might actually be a special case. We have been able to take account of the effect that you do pay above sort of normal market prices for some important inputs. I don't think any of that aspect of the matter has not been picked up. We estimate, as I say, that your effective rate of assistance would decline as it would for manufacturing industry in general, that it might decline fractionally more than the average but still for all intents and purposes to leave you in a position where you would be neither assisted or unassisted by tariff arrangements. It may be that there is still something missing in that approach but I don't think we have failed to take proper account of the impediments, the specific impediments, that furniture makers face as a result of having to pay tariff inflated prices for an important part of their inputs.

On the ABS data, yes, this may be a question of size, I think, more than anything else. If I remember rightly, Mike, and please correct me if I'm wrong here, during your initial presentations to us earlier this year I think you saw some inconsistency between different ABS sets of data.

MR RADDA: Yes.

MR COSGROVE: Was that input, output and manufacturing employment?

MR RADDA: Yes.

MR COSGROVE: Again bearing in mind your comment to that effect, we have had a look at the ABS data at least, and I understand of course that you think it's still underestimating the true size of the workforce in the sector, but so far as we can see the most recent input, output data for what is described here purely as furniture, Industry Grouping 2002, is very much in line with the other manufacturing census-based employment data. It shows a level of employment of a little more than 40,000 people. If you include - - -

MR RADDA: If I can jump in there, it's interesting that the work done on our industry as part of the action agenda from the Department of Industry and the research that was done from the University of New South Wales has come up with an answer - this is not the furnishing industry - but those two groups have come up with a figure of 70,000.

MR COSGROVE: Yes, well, that remains a bit of a conundrum. If you include, according to these input-output estimates, people who are self-employed essentially, the figure rises to about 54,000 but it still leaves a gap as compared with your 70,000. I think the practical significance of that in terms of what I was saying earlier about our estimates of where the draft recommendations would leave assistance to your industry, is that you would move from a situation of, let's say, 3 per cent at present effective assistance to something like zero, but that would be applying to perhaps a somewhat larger number of employees and then possibly manufacturers as well, than the sorts of number that the ABS data are indicating now. That's a scale issue. I don't think, if you look at any individual enterprise or group of employees in a particular furniture-making firm, there would be any different size of effect, but the actual scope of the sector, if you can follow what I'm saying, might be bigger than the figures which we have used would indicate. I don't think I can explain any more.

MR RADDA: I'm not sure I san sort of go much further. Like I said, for us the issue of grouping makes it sort of - you make an assessment based on a broad grouping where it's only parts of those. Because of the broad grouping, however you want to cut that dice, only a portion, say 30 per cent of that wear the textile tariff.

MR COSGROVE: Yes.

MR RADDA: That's part of the analysis that also needs to be undertaken. We have also got research from Roy Morgan and other sorts of groups on the industry about which products the industry makes that drive the industry, so which other key driving products, if you like, and they are upholstered products. So if they're the products that bear the burden there are some issues that haven't been analysed. I understand you have got some limitations but for us you're not in a position to be able to say from the data that you have that has been made available to you that comment that you put into page 12 of the introduction which is that there will be little significant effect on any industry.

MR COSGROVE: Yes. Well, I'm repeating myself already, but I accept that the level of industry analysis is relatively broad, 66 manufacturing industries, still a fair number, and we of course have looked at many non-manufacturing industries as well, I think in total about 113, so this is not a 10-industry classification or anything like that. It's pretty detailed even though there is some level of aggregation there inevitably. As I said earlier, in the case of furniture per se, leaving aside related industries, and I have forgotten now what is in the actual, you know, one of those 66 industry groups that encompasses furniture, but we look specifically at furniture.

MR RADDA: That's the point I guess I'm getting to, is that you've only got broad data and you can't look at some of the work. Even the furniture industry itself is now starting to try and tease out some of that. For instance, we have started to spend a lot of time looking at the actual tariff codes that come under - sorry, the textile tariff codes to work out the actual dollar value that we believe we pay in textile tariffs. We have only done a first cut because there is a lot of work to try and ascertain that, and you would understand the complexity in teasing out custom coating.

MR COSGROVE: Indeed. We have a whole appendix reporting, how we have made estimates of the effects of those different tariff lines, and there are hundreds and thousands of them. Our staff team went to a considerable effort, I can assure you, to bring all of that detail into the assessment of the price effects of tariffs; whether they be on inputs or outputs.

MR RADDA: I understand that but what I'm saying is that work hasn't even really been done in the furnishing industry. The furnishing industry itself hasn't done it, the Department of Industry hasn't done it, the ABS has done it, so how is anybody able to make an assessment of that. I don't actually think anyone can right at the moment because you wouldn't be aware - I think the textile tariffs at the moment are about 100, 110 million. You wouldn't be aware, because we're not exactly yet, what percentage of that is attributable to furniture, and though flow-on effects of what the effective negative assistance is actually quite difficult to ascertain.

MR COSGROVE: Yes.

MR RADDA: You can make some broad classifications but it doesn't apply to us.

MR COSGROVE: This might be a matter best pursued separately by us rather than trying to sort it out here today but I think you'll find that there has been a genuine and quite intensive attempt to capture the price effects of all those tariff lines which affect your industry. You see, we know what the level of the tariff is, whether it's on the products that you sell or the items that you have to buy to manufacture your product. We know, based on the input, output tables, how much of those inputs your industry uses so the combination of those two pieces of information does enable us, I think, to get a pretty good handle on the level of overall assistance which the tariff structure in its entirety, that is, on both the input and output sides, provides to any particular industry. We have tried, I say again, to look very specifically at all of those inputs that come into your industry specifically, not just the broad industry group within which it fits. Now, we may have missed something in the process nevertheless.

MR RADDA: Do you think you would be able to quantify the amount of additional tariff we pay on our input?

MR COSGROVE: In terms of dollar amounts?

MR RADDA: Yes.

MR COSGROVE: Yes, I think that would be possible because we know what the level of the tariff is on those inputs and the input, output tables would tell us how much of those inputs furniture-makers use. So by multiplying one by the other you should be able to derive an estimate of the tariff-inflated price of your industry's inputs. As I say, I haven't personally been involved in the derivation of these estimates but I have a lot of confidence in the work done by the staff in this area and it has been on public display since the release of our draft reports; but as I say, it might be something still which we might want to pursue bilaterally, Mike, I wouldn't rule that out.

MR WOODS: I was just wondering, in the previous submission and hearings, you were referring to the furnishing industry action agenda. If you can update us on what the timetable is for that.

MR RADDA: The minister has made a media release to say that the government has accepted a furnishing industry action agenda. On 24 July an announcement will be made.

MR WOODS: Yes.

MR RADDA: The industry, I guess, is already now starting to work on a series of programs for industry development, industry improvement, as a consequence of the action agenda, so I think there are a lot of positive outcomes from that process.

MR WOODS: In your opening remarks you suggested that in some way our options were restrained, I think is the phrase you used. That hadn't been either our intention or our impression but if there is some further observation that you would like to make in that respect that might be helpful.

MR RADDA: I guess we haven't teased them out in detail, but that issue of this industry - the furnishing industry pays, from our calculation, in excess of an additional $25,000,000 in textile tariffs but other equivalent industries don't, so if you take an industry of the same size doing some sort of manufacturing there is not an additional 25 million surcharge put on their purchases.

MR WOODS: I understand that is the consequence on your industry, but in terms of formulating options within our terms of reference I don't then see - - -

MR RADDA: Because one of the things we would be interested in is what arrangements can be made to compensate the industry for that 25 million that they paid.

MR WOODS: Right.

MR RADDA: I guess basically a surcharge.

MR WOODS: You're seeing that as an option that would pick up a direct offset.

MR RADDA: Well, for instance, there's clearly an option that if there are industries that can clearly be shown disadvantage because they're allied or affiliated with the textile, clothing and footwear, or the motor vehicle sort of industries, that there probably needs to be some arrangement made with respect to that issue, and that's not one of the issues you picked up. That's the issue for me that makes it more preordained, because if you set them that's not an option that you guys can come up to because it's not one of your four options for tariff recommendations, so therefore when you get to the conclusion, and you have made the mention, that there are some adverse effects for the furniture industry. Because of the conditions you have set at the start when you have come to the end of your analysis, you're not able to come back to that conclusion and say, yes, well, that should be an option we can consider because you haven't put it up at the front.

MR COSGROVE: Yes, you're quite right, Mike. I think the approach we adopted was that if you were to take the position you were just advocating you would end up lost in a labyrinth of particular circumstances of individual industries. There are many in addition to yours. In fact, we will have one appearing later this morning before us, and perhaps more than one, which appear to face anomalies in the tariff structure. You know, it might be that the tariff on one of their products is different from the tariff on another one of their products for example or that they see themselves as being part of a broader industry sector whereas they have been selected for some reason lost in the sands of history to be accorded a different tariff from that broader sector within which they see themselves as falling.

That was the approach taken to tariff policy for quite a long time after the - well, both before and after the Second World War - but what it produces is a hotchpotch of differential rates of tariff which involve considerable distortions in the market which produce effectively inefficient patterns of investment and production as well as of course consumption. The approach taken in more recent times has been to try to reduce the dispersion. It's a technical term, the dispersion in the tariff. In other words, to try to get to a position where, whatever the level of tariffs is, there is not a lot of variation in individual tariffs. Now, I can't - - -

MR RADDA: Let me come in on that point. We could accept that. However, the issue is here not the general proposal that you've got; it's the issue of now the increased disparity between our industry and the textile clothing and footwear industry, because we're a major user of textiles.

MR COSGROVE: Indeed.

MR RADDA: Not only are you a major user of textiles but the upholstered products we use are a key driver of our industry.

MR COSGROVE: Yes, I agree entirely.

MR RADDA: So I understand your principles and I think the industry at large tends to agree with you; that if there wasn't the textile clothing and footwear tariffs we wouldn't be making these comments because we would agree with the general principles, but we don't want the disparity even increased, which is what your proposal is.

MR COSGROVE: Yes, in the circumstances of a sector such as yours that is the effect, as I acknowledged earlier this morning, that you have come out fractionally more disadvantaged than manufacturing industry in general, but I think the preferable route to take, and I'm afraid it's going to require some further patience on the part of your industry, is to reduce those tariffs on the sectors which are important inputs for you. Of course it's true that if we look more broadly than furniture-making, tariffs on motor vehicles, passenger motor vehicles, are also an important input for a number of other sectors including probably yours too.

MR RADDA: I could probably make a comment there.

MR COSGROVE: The government does have of course in place a policy which will see those tariffs begin to decline further again into 2005. We have indicated in the draft report that we have some sympathy with the concerns of industries such as your own which are now in this situation of having specifically elevated tariffs on important inputs, but to put in place some sort of compensation mechanism I think would - I'm not sure where that process would end really. You would have quite a number of claimants, I think, and it's better, it seems to me at least, to keep trying insofar as you're able to, to bring those presently elevated tariffs to levels more in accordance with the assistance provided to yourselves and the generality of manufacturing industry.

MR RADDA: I know this goes outside the scope of this inquiry, but it comes back to the question of the action agenda. The furnishing industry has undertaken an action agenda because it faces a risk of market failure, and that's not an issue really primarily related to what you're talking about here. However, any additional negative assistance that your recommendations will have at this time now for us could be extremely detrimental, and I have made the point in previous submissions that a major concern of ours is timing. The fact that this proposal is now for 1 July 2001, there is going to be disparity between where we're at now with respect to the textile tariffs. We have undertaken and we have recognised the issues that the industry has to face and we are being optimistic and proactive about them, but this will be another disincentive to the industry and probably increase that risk of market failure.

The other issue that I would like to raise is that, okay, there's a scheduled 2005 reduction and you've made same assessments on that, but we live in a political environment and 2005 by no way is guaranteed as far as we're concerned.

MR COSGROVE: It is in legislation.

MR RADDA: That's fine, but as I said, we live in a political environment and legislation can be changed and 2005 has yet to be seen. So some of the impact for us as an industry, we have to take in the extreme, because I'm not so sure that other industries such as textile, clothing and footwear wouldn't be interested in altering that legislation. That may not, I can't comment, but the issue for me is that 2005 is a date that we don't believe is set in stone.

MR WOODS: You made reference to the potentiality of industry failure. Since we last spoke what has been the trend in the market and prospects for your industry over the last six months?

MR RADDA: I guess the key issue for us in the domestic sector has been the increasing market segmentation by the retailers. The furnishing industry is going through a market shift from a large number of disparate and independent retailers to about 10 or 15 national retailers, and that has continued quite significantly through the growth and that's having a very sort of direct flow-down effect to manufacturers. It's a market structure issue but it's creating enormous opportunities for importers. In the past it was quite difficult to import furniture into the Australian furniture market because you had to set up your own distribution networks and a whole range of issues. Our geography, transport arrangements, are I guess an inhibition to importing. Now with the growth of major retailers it's much easier because you can negotiate directly and obtain a single order and get up and running. So some of those issues are what underpin this issue of the risk of market failure.

MR WOODS: In practice though has the domestic production been on a decline or in fact reasonably healthy over - - -

MR RADDA: No, the share of imports is increasing. There's a significant trade deficit which is growing in our industry.

MR WOODS: But is your own production still reasonable and - - -

MR COSGROVE: If you think of the level of as distinct from the share.

MR RADDA: Over the last six months, if you like, the amount of production has increased, so it has maintained its constant sort of percentage.

MR WOODS: So the share is one thing but in terms of your actual production you're still operating at least as robustly as previously, if not slightly better.

MR RADDA: Yes. The issue for us, however, is not right now but what we will be in four to six months, when the expected market downturn comes in, because that's when the competition will really hit.

MR COSGROVE: What is that a function of, Mike, general economic conditions?

MR RADDA: Yes.

MR COSGROVE: Yes, I see.

MR WOODS: That will impact differentially between your production and imports?

MR RADDA: Very much so.

MR COSGROVE: Why would that be? Wouldn't the choice made by consumers between domestic production and imports be essentially a relative price choice rather than one governed by the growth of domestic incomes?

MR RADDA: It is, but the question is whether some importers when that market starts to decline are still prepared to engage in predatory pricing or market share strategies.

MR COSGROVE: We've noted in the draft report that there has been a quite substantial decline in the average value of the Australian dollar in foreign exchange markets, which one would think in most circumstances makes Australian production more attractive relative to imports. Has that been a factor assisting your producers, would you say?

MR RADDA: We would have thought it would be more of a factor than it actually has been. Because there are new markets importing into Australia it seems to have had less effect. China and some other markets have seemed to have focused on our marketplace and it seems to have sort overturned some of the effects, we would have thought. It's actually, from our experience, not just the exchange rate, but freight rates seem to have gone up significantly, and in traditional import markets they seem to be biting as hard as the exchange rate fluctuations. But the new importers, which are very active and very aggressive, seem to be less impacted by those issues.

MR COSGROVE: Are those imports of a particular type of furniture, like leather, for example?

MR RADDA: No, not particularly. They're across the board.

MR COSGROVE: I don't think we have anything further to say, Mike, unless you have anything further you want to say to us?

MR RADDA: No, I'm done.

MR COSGROVE: Thank you very much again for coming along. I can assure you we understand, and as I've said, have some sympathy for the circumstances in which your industry finds itself at present. We'll have a further look at the figuring, as you say, that we've undertaken, and if there's any need for us to deal bilaterally with you on some of the details we'll see if we can do that too.

MR RADDA: We would be happy to do that. Thank you.

MR COSGROVE: Thank you.

MR COSGROVE: Our next participant is Australian Musical Imports. Again, for the purpose of our transcript please, would you identify yourself and the capacity in which you're with us today.

MR GALLIN: Yes, Con Gallin, managing director of Australian Musical Imports. What I have here to give you today which we didn't send along with our submission, is a letter we sent out to music stores around Australia. It has the letterhead of our Customs agent, Curlett Cannon and Galbell, but it was basically sent by ourselves. The reason we put the Customs agent's letterhead was to make sure that it was fairly impartial. The reason I'm here today: although we're a distributor and we also have retail stores, I'm here really to try and improve the situation for our industry as a whole. So it's not purely for myself.

This is not every music store in Australia but it's about half of them. What this letter is, it just simply says, "Are you ready to accept a price hike?" because five years ago we had import duty on guitars taken off. We asked Customs to take it off and they did. Six months ago a local manufacturer made one model. Now, there are thousands of models of guitars. By the way, the guitar is the biggest selling instrument in the world and it's the most popular instrument.

MR COSGROVE: When you use the word "guitar", Con, does this cover what you might call classical guitars or are you - - -

MR GALLIN: Classical guitars, electric guitars, pretty well everything. As a whole musical instruments in Australia, they say about 95 per cent are imported. I'd say it's probably more like 99.5 per cent . We don't make pianos here, we don't make banjos, we don't make mandolins. In fact, there are more repairers employed in Australia repairing musical instruments than there are people employed in the manufacturing industry.

MR COSGROVE: They can be long-lived products, yes.

MR GALLIN: Yes. The point is that we sent this letter out to the stores, and I'll just explain this because I'm going to hand it to you. What we asked them was - a local manufacturer now makes one model of an electric guitar. They made acoustic guitars previously, and because there's that one model it sells at $1000 retail. We have guitars that are imported that sell for $200 and our company sells electric guitars from $300 to $50,000. So I argued with Customs about it and they said, "The way Customs views this is there used to be a time when they used to qualify things. They would say this is a substitutable thing, this isn't; but now it's just a broad-based thing. If they can make a thing that we think is a guitar - not that we really know because we're not experts - you get this duty."

So when we sent this letter out to the stores we said, "Do you accept the duty? Do you think it's going to help the local industry, which is one manufacturer? They employ 40 people; our industry employs tens of thousands of people." So it's 40 people versus tens of thousands. Then in the second box we said, "Would you like to see the duty removed?" and in the third box we said, "Would you demand that the duty be removed?" It was unanimous that nobody thought that the duty was producing anything. It wasn't producing more sales for the local manufacturers, there was absolutely no doubt about that. So what I'm going to hand to you is just - it's not every music store but it's most of them. Some of them might have three or four stores, and there are names and phone numbers on there and our original submission, which is not very complete, but I'll just hand it to you anyway.

MR COSGROVE: Okay, thank you.

MR GALLIN: So you'll see that there's a cross-section of stores throughout the country there. I think why our industry is probably - I suppose it must have a fair amount of relevance here today because I was listening to the other gentleman. We deal with major stores, we deal with small stores. We're similar to most other industries but ours is a smaller industry. Musical instruments in America in 99 sold $A12 billion, a growing market. In Australia it's declining. It's about 3 or 4 hundred million. It seems to struggle here because we don't seem to have enough cash in our industry, there's not enough profitability there, and if you add up 22 per cent sales tax, 5 per cent import duty - 27 per cent - the stores don't make that, but the government does.

What happens is the government is sucking this money out of our industry, and we all know what happens if you want to cause a recession. You have a credit squeeze, you suck cash out of the industry. You want to fuel inflation, put prices up. Keeping sticking taxes and tariffs on, keep putting your prices up, and what happens? You soon end up with a situation where with the Net now there's an enormous threat of people buying musical instruments overseas. So we need to be competitive.

I might just get back to something a bit more specific. In your reports you say this 5 per cent is a minor thing, and that's just got me absolutely bewildered, because everything is a minor thing in industry or in business. There are little components that make up a whole. If we take 5 per cent off the retail, two things are going to happen: the product becomes more affordable or there's more scope within the industry to maybe have a slight price increase so the stores can maybe gain a bit more profit margin. Music stores in Australia work on about 25 to 27 per cent gross profit, which is about the equivalent to what the government get in taxes in terms of sales tax and import duty. So the government make as much as the store.

Now, this 5 per cent, if it was put towards advertising - I'm just wondering whether all those reports that you had - what kind of an outcome would you have if you had this extra 5 per cent of cash in your industry and you advertised? Our industry have one organisation called Australian Music Association and they're pretty well hopeless. They put on a trade show and that's about it. They've asked wholesalers to put like a levy on so that they can get this pool of funds so they can promote music, learning to play a musical instrument. But nobody ever gets involved because they say, "Well, look, it probably won't work anyway." But I just think that 5 per cent, when you add the benefits of GST coming from 22 per cent sales tax to 10 per cent and this 5 per cent of tariff, that's 15 per cent. Then if the dollar improves a little bit more there might be another 5 per cent there, so you keep gaining. I mean, that's what it's all about. It's a matter of creeping in the right direction, not in the wrong direction.

But the advertising thing didn't seem to be mentioned in the reports. I mean, if you advertise, your business will increase. Now, we don't advertise in our industry because there's never enough money. The other issue which wasn't in my submission, we're the biggest distributor or we sell more guitars in Australia than anybody. We wholesale to about 200 stores around Australia and we also have four stores of our own, which are quite substantial stores, but we also distribute in New Zealand. What happens there is we bring containers into Melbourne and then we send every week or every fortnight a small shipment to New Zealand.

Now, New Zealand had most of these tariffs removed three or four years ago. Pretty well, you know, as soon as they introduced GST, most of the tariffs went, and I don't think I need to tell anybody what happened with tariffs in New Zealand. A 15-year old car was $25,000 there, roughly, now a 15-year old car is $2000. It's probably more expensive in Australia now. So where we're having a problem is that we pay import duty here and they say you can get a drawback when you send it to New Zealand. So how do you get a drawback? You'd pay a Customs agent to get your drawback, so you never see any of that money back because the Customs agent's fees chew it up; or we've got to employ staff to sit around with bits of paper and, you know, get that shipment, get that document together, and it's inefficient.

MR COSGROVE: That's an interesting point. One of the matters on which we were seeking information post the draft report is the extent of what we call compliance costs, the sorts of things you were just mentioning, you know, having to hire a Customs agent or dealing directly with Customs.

MR GALLIN: You don't really get the duty drawback.

MR COSGROVE: You don't.

MR GALLIN: Nobody ever sees that money.

MR COSGROVE: You mean the monetary value to you of that duty drawback is entirely wiped out by the effort you have to put in to - - -

MR GALLIN: Well, not entirely, but the option is you wait six months to do a bulk duty drawback, and you wouldn't believe how complicated that can get. The Customs agent says, "I've almost finished it." I mean, it takes weeks, because they just seem to think - they put it on a backburner. It's extra work for them, and you could say, "We'll get another customs agent." Well, we've done that, but it's not an efficient way to do it.

Now, a terrific thing that I saw on your Web site in the submissions - and I was looking for it this morning and I didn't have enough time - but somebody makes either lawnmowers or whipper snippers or something like that - - -

MR COSGROVE: Yes, a company called Atom Industries, I believe, yes.

MR GALLIN: Now, in my submission the biggest point that I make is Australians are very poor salesmen. You don't have leaders in business like you do in America. I have been going to America every month for 12 years and there's not much I don't know about the music industry in America. In England you have people that stand up. Prince Charles will stand up and say something, but the leaders in our industry just get out of Australia like Rupert Murdoch, and they don't really stand up for the country. How we found out about this inquiry was we actually wrote to Peter Costello who referred us to Senator Minchin and then both of them wrote back and said, "Look, there's this inquiry." Well, that's the only way we found out about it, quite by accident. So I think as a whole, Australia needs to go forward a bit, you know, and then I think most industries will be more viable.

Now, one of the first things you can do in Australia is if you look at Atom Industries, they had, I think, it might have been a two-page kind of submission, but then they attached all these awards they've won. The marketing they've done is just unbelievable. They've got these award after award for excellence, and how did they do that? Well, first of all they improved their product, then they promoted their product. I'm in sales and can understand the problems of manufacturers and I know that they're all very nervous, but I think you need to have a very healthy economy to survive in there. You need a healthy economy that's going forward, otherwise, just because you can make something, that's only a very small part of the story, making it.

Everybody seems to think, well, you know, we need to manufacture more in Australia, and until I'd read some of your submissions and looked at what you were doing, I had no idea just how strong manufacturing really was in Australia, and it's probably getting stronger. This is just a glance and I can see how huge it is and if it's getting stronger. There are reasons for it, and it's not the 5 per cent tariff. That's got nothing to do with it. I think even the minister calls it a nuisance tax, and what was really even more interesting since this has all happened was last night - I don't know if anybody here watched the news, but Kim Beazley was on the TV last night saying that he's all for free trade now. How is it - and the unions are apparently a little bit worried about it - but how is it that Kim Beazley gets up there and says, you know, that he agrees with pretty much what we're talking about today, whether we should remove this tariff. John Howard and Peter Costello should have done this, you know, the day they got into power. They should have removed these tariffs because it's just not really productive for the country.

Nobody can actually stand up and say, "Because the government is taxing you more, I'm selling more." If you want to sell more, get a better salesman. That's what we do. I mean, I sell more guitars than anybody because I've been at sales courses, I know my market better than anybody, and today, selling - and I'm calling it selling, not marketing, because I could get up here and do what these other people do and give you a big 300-page report and say, look, I've got all these degrees and, you know, I'm a doctor and all that - but marketing is part of the story. It really still comes down to the main task at hand is selling, and how you do that is that - well, Australia I think is probably - and we import out of the UK, Korea, Indonesia, mainly the United States, Spain - we used to do a lot of stuff out of Canada as well - Australians have got a personality that if they could exploit that, I think we could sell a lot more, not only to our own market but overseas as well.

Now, that's something which if you read your report, it's not taken into account because they say, well, we can't quantify personality. The reason I'm in business - and I started with nothing, $1 - is that I persuaded people in America that I could sell more guitars; I knew more about guitars than anybody in our country, and in fact I know more about guitars than most people in America, and America is the biggest producer and manufacturer of guitars. The company we represent, Gibson, are the biggest in the world, so it's very easy to sort of, you know, try and make excuses for your industry. The wool industry is a perfect example, and I put that in the submission as well. Most of the world freezes over, probably 80 per cent of it freezes in winter time, but we can't sell them wool. It's like Kerry Packer is in the desert dying of thirst and you've got a glass of water and you say, "Here, have it for free." Well, he's got billions of dollars, you should ask a big price for it - but we have a problem selling.

So all I ask for, from our industry's point of view, is that if Kim Beazley now is for free trade, and this inquiry is probably eventually going to get to that point anyway where you probably remove the tariffs, that you do it and do it quickly. I don't think you need to waste any more time. I'm sure that other people probably have a different view, especially manufacturers might be very nervous, but from what I was reading on the submissions, even they're paying tariffs on things that they're importing. They need certain components to make something, and there's this huge problem of, "Well, my cost is greater because I've got to import these things with tariff and go through all this rigmarole." 3 or 5 per cent isn't a huge amount of money, as the reports say. Now, in my case, being an importer, we'd pass it on, but I don't want to do that. I just feel that it's wrong. I think that we need to sort of improve our businesses as a whole and the economy, and then I think we'll all benefit.

The Internet is the other major thing that we're concerned about in Australia. We need to be competitive with the rest of the world, because you can talk about, you know, making furniture in Australia, but, I mean, I go overseas all the time and I'm thinking of importing furniture from overseas because Australia makes only a limited type of furniture; you find it's at a certain price point. With major outlets like Harvey Norman now, it's inevitable that they'll import, because they're going to buy in bulk and they want to get the best deal possible.

There are things that you can't buy overseas though. Quality products, try buying it out of America. Quality in America is probably more expensive, to buy a quality item in America, than probably it is in Australia. A few years ago they were talking about the Japanese and the Asians being the most efficient workforce in the world, and I think for the last three or four years the Americans have been, so you know, we've got to sort of align ourselves with America rather than $1.50 labour in say Taiwan, because there's another market out there. There's a whole huge market out there. If Australia focused on selling to America alone, probably this country would go through the roof. We just seem to be like such a small nation that, you know, there's not much point putting effort in because you say, "Well, I can't get started in Australia, it's a small industry, small market, we're not in America." So if the local manufacture in musical instruments that we have in guitars employs 40 people, exported, the world market is billions of people, so why complain about what 17 million people are doing. If you're in manufacturing, you've really got to look outside.

The weaker dollar has pushed prices up for us, which is not a good thing, and so what I basically said in my submission was that the biggest problem, I think with import duties, it struggles to work efficiently and properly. It's completely logical. It's like if you make something for $100 and somebody making it for $50,000 should pay import duty; if you make something for $10,000, somebody importing it from China for $100 pays import duty, and this word, if you can substitute something, you know, you might say that you can, because to you it might make a difference; but in the music business, you know, you are asked whether a classical guitar is any different to any other guitar. Well, guitars are six strings and basses have four strings, but now there's a seven-string guitar which puts a spanner in the works. So now try getting import duty taken off a seven-string guitar because it's not made here. It will probably cost you a couple of thousand dollars, and then you've got to sort of do this business of what you were talking about earlier. Do you pay tariff on this? Do you pay tariff on the other thing? How do you separate it out and how much time does it take?

I've got a very brief thing here, a one-page report out of an American thing that came out, which we got in the mail yesterday. Guitar sales in America are about a billion US, and you might say, well, chairs is a bigger industry, or cars is certainly a big industry. We're a small industry here, but I think the principles are the same. We're still in business; we had to start with nothing; we had to go to a bank and borrow money; we employ people. Our distribution company alone employs almost as much as one manufacturer. Then you have Allans Brash group, they're in musical instruments now. They're not in CDs and records any more, but in the musical instrument stores that they have, they employ about 130 people. If our industry as a whole is healthy, the local manufacturer will benefit. If the local manufacturer wants tariffs which he thinks is a malicious act because his competitors will suffer, then I believe he will suffer.

From our industry point of view, and I think in business in general, it doesn't seem to be that we're arguing about very much, and I think now that the Labor government are also saying "free trade", it's almost unanimous. I mean, there's not much to say, but the only thing is, are you able - we had no tariff for five years on guitars. Now, do we have to wait for another year or five years before your report takes effect, or can you - - -

MR COSGROVE: When was that period of no tariff, Con? No tariff for five years, what were those five years, do you know?

MR GALLIN: Well, five years ago, we just put an application in. The Customs agent put an application to Canberra and said can we have tariffs removed, and they said yes.

MR COSGROVE: So 94-95.

MR GALLIN: Round about 95; it might have been 96 even.

MR COSGROVE: Now the tariff is 5, you're saying.

MR GALLIN: 5, yes, this was on electric guitars and bass guitars, resophonic guitars, banjos and mandolins, not on acoustics. They left the tariff on acoustics because the local guy was making acoustics to sell for 1000 to 2000. So if your child wants to learn to play guitar and you want to buy a $99 nylon string, there's a tariff on it, and clearly there is no substitute in Australia for this manufacture for $99 retail.

MR COSGROVE: There are provisions to use so-called concessional arrangements which, as the word indicates, can gain an exemption from what I think for most items at present is 3 per cent, if it can be established that there is no local manufacturer. Have you tried to use - - -

MR GALLIN: Well, I spoke to, I think it's John Keating, at Canberra, and he said that used to be the case, but now the legislation has been changed again where you can't distinguish between - you know, price isn't a factor. That's what I was told, and I spoke to him on the phone, I had faxes with him and I tried to tell him that, you know, how can you tax a $50,000 guitar because you make a $100 one in Australia, or the other way around, and he said that price has no bearing any more. That's what I was told.

MR COSGROVE: The reimposition of the 5 per cent tariff came as a result of a submission by the - - -

MR GALLIN: About two months ago it took effect.

MR COSGROVE: It was two months ago, was it?

MR GALLIN: About two months ago. That's when I wrote to Peter Costello and I said, this tariff thing is just - now, in New Zealand, as soon as GST was removed, the whole idea with GST, we know what it's supposed to do, and they said, well, if it does what it's supposed to - and personally I think it's a very good thing for business and there will be a lot of opportunities there. For instance, if you - let's suppose somebody shoplifts a guitar out of a music store. You've already paid 5 per cent import duty to the government and 22 per cent sales tax; you get nothing back. If you didn't have the duty for a start, well, okay, the government didn't get the 5 per cent when you had your guitar stolen out of the music store and the Tax Department didn't get 22 per cent because there really isn't provision for shoplifting, for instance. Or if you want to dump something you don't particularly - you know, you can't sell a product, you import it and it's a dud, it's faulty or whatever, you lose money on it, it's very difficult to get the credits back whereas with GST, I think there's a provision there. It might be a minor one but still, again, it points in the right direction.

The other thing too, I think, which I summarised, I don't think that Australia has ever been the kind of country that's always frightened of competing or frightened of what the rest of the world is going to do to us, you know, we've always - you've just got to go to other countries and have a look. We've got a stable economic climate here. It's a middle-class society. So I don't think that by putting this tax, by having this 5 per cent is sort of - you know, somehow by removing it we're all going to end up in the street unemployed. Personally I think a lot of people will be very surprised. I think that most industries will improve.

MR COSGROVE: Yes, well, as we've said in the draft report, I think if you look at the economy as a whole it's not easy to establish that tariffs assist the level of employment. They may do a little bit for employment in the particular sector where they are applied, but as you were saying, they're causing adverse effects to others. That's a point that's often overlooked.

MR GALLIN: But how do you improve employment by putting on a tax? The government puts a tax on, they suck cash out of your industry and you walk away thinking, "Now, what a relief. The government has created job." It doesn't work like that. If you want to employ people - if you want to employ more you sell more, and my submission is all about that. I mean, you've got to help yourself. You can't expect the government - I mean, the government can probably obviously help in a lot of areas but if you have a business, the first thing that you must understand is that if you are the owner or you're running that company or the CEO, you've got this responsibility and that responsibility is that the business has to be viable.

It has to return a profit so therefore you can then pay your employees, you can pay their super for them and you can pay their holiday pay, and the tariff, you know, it doesn't really have very much - it's more of a nuisance than anything. I think that compliance costs for tariffs, group tax, GST, WorkCare, all these things, they just keep mounting and mounting and that on its own is probably, you know, taking a greater toll on industry than what even the tariffs are. So if you can eliminate a few of these things and streamline a few things and make, you know, companies a bit more efficient, that's obviously the way to go.

MR COSGROVE: Would you be able to give us any solid information, do you think, Con, about the costs you incur in use of the duty drawback scheme?

MR GALLIN: Absolutely.

MR COSGROVE: I don't imagine you use any other concessional arrangement, do you? No.

MR GALLIN: We've tried all that and, like I said, we had the duty removed five, six years ago.

MR COSGROVE: Yes.

MR GALLIN: That was an enormous job just to get that done.

MR COSGROVE: Yes, I can understand that.

MR GALLIN: And then it got put back on again. So now what happens is - you know, I suppose I could break it down, but let's assume you get $1000 back, and as I said, New Zealand is a small market, but it's a market. An interesting thing about New Zealand for what it might be worth today is that if you sent something by road to Perth, it will cost you about $1 a kilo. If you send something to Auckland by air it's 70 cents a kilo. Hobart is $1.20 a kilo. So it's cheaper to fly goods to New Zealand. So that's another market. So if you think that your manufacturing is going to drop, how about trying to export to New Zealand? But the situation with the Customs agent is it will probably cost you 3 or 4 hundred dollars plus your staff and time.

It might cost you 6 or 7 hundred dollars to get maybe $1000-drawback which, to accumulate $1000 in small shipments to a small market in New Zealand you might wait three months for instance to get that back, whatever it might be. We're not talking huge amounts of money but in our industry it's a small amount of money. But there could be somebody else here that might be exporting, I don't know, 50 million to New Zealand. We're doing at the moment about 400,000 to New Zealand. That's all. It's not very big. But our full catalogue isn't distributed there. Later this year we distribute our full catalogue there, which will be about 2 million a year.

MR COSGROVE: Do you export to any other markets, even though I realise you're an importer?

MR GALLIN: No, we don't.

MR COSGROVE: Only New Zealand.

MR GALLIN: Our main function is to represent overseas manufacturers. Now, the ones we represent, they're pretty specific. I mean, they're like - you can't just dump anything in Australia because the market just won't stand it. A lot of people think you can, they're always frightened of imports, but until you get into importing you really don't fully understand how difficult it can be because, you know, this market is used to quality product. You can import cheap stuff out of China - and I tell you what, the backlash would be enormous when you find a container full of, you know, faulty product or you find that the colours are wrong or the style is not quite right. There's enormous risks associated with importing, and probably when you look at the benefits of having local manufacturers, if you can also be supplied by local manufacturers, I think there's always going to be a need for local people. There's no doubt about that, because of the efficiency. I mean, they're down the road, you can talk to them on a regular basis.

The biggest problem is, as I said, if you can't get along with your customers - service in Australia, obviously you must know, is a major problem. People don't get service here. I mean, the first thing you'll get is probably somebody on the end of the phone being extremely rude to you and slamming the phone in your ear. Now, that is a major problem. 5 per cent tariff compared to how rude people can be on the phone is nothing. In America you go to a restaurant and you tip them, they just about bow and scrape, and that's America. Other countries will do anything for a dollar, yet here we seem to - these are the kind of things, I think, that are probably more important than, you know, how we market ourselves and how we position ourselves kind of - you know, compared to the rest of the world is probably a lot more relevant than getting rid of this tariff which is not very relevant to most businesses. I mean, you can see what the turnout is like today. You should have 5000 people here.

MR COSGROVE: We have had a lot of submissions. Many more people provide us with written submissions than appear of course.

MR GALLIN: I'm sure you have. But surely Australia - you know, there must be just thousands of people importing. I know what my Customs agents have told me, "Everybody is against this import duty," but, you know, that's just an example of - you know, that people have tolerated the tariffs and I know that - I was the first one in our industry. When I started in importing about 10, 11 years ago, I kept asking everybody - the tariffs were higher then, they were about 10 per cent, and I kept saying, "Why are we paying these import duties?" - and I was the only person that questioned it, and we put this request to Canberra to have it removed and they did. And I wondered why did everybody pay this for so many years. Anyway, now we've got Kim Beazley saying the same thing so, you know, maybe it's just a - - -

MR COSGROVE: Well, we'll see. Mike, any questions? I don't have any further questions. We can treat this as public documentation for the inquiry?

MR GALLIN: Absolutely, yes.

MR COSGROVE: Thanks.

MR GALLIN: Anyway, thank you for the opportunity.

MR COSGROVE: No, thank you very much for taking the time to write to us and coming along today. We appreciate your input.

MR GALLIN: Thank you.

MR COSGROVE: Our next participant is Kaal Australia, if they're present. Now, you're planning to use a slide show, that's fine, but I think before we get that under way if you wouldn't mind both for our transcript just identifying yourself at the mike and the capacity in which you're giving evidence to us today.

MR OSBORN: Thank you. Wayne Osborn, as the managing director of Kaal Australia.

MR HANNAGAN: John Hannagan, Hannagan Bushnell, consultant to Kaal Australia.

MR COSGROVE: How do you plan to proceed, Wayne?

MR OSBORN: Thank you for the opportunity to present again. As you may remember, we presented back in January.

MR COSGROVE: In Sydney, yes.

MR OSBORN: Firstly, I might apologise, firstly, to the former speaker. I have a beautifully handcrafted Australian guitar made from Australian wood. It's a lovely instrument.

MR COSGROVE: Good.

MR OSBORN: What we would like to do is perhaps not go through the body of our submission perhaps but summarise the points and talk through those.

MR COSGROVE: That would be fine.

MR OSBORN: Mr Hannagan will handle the overhead for me overall. I guess, to commence, just to make three basic points up front. I guess it's, with due respect, we do reject the commission's findings. We believe the costs to industry of further unilateral tariff reductions is more than slight and it is quite significant. There was an assertion in the report that the depreciation of the Australian dollar overall has lessened the impact of tariff reductions and we believe that's not necessarily the case for all industries and we'll talk a little bit about that. I think the most important aspect we'd like to reinforce is this issue of reciprocity. It is significant for us. It will affect both the viability and further investment, we believe, in the semi-fabricating industry and we'll go on and talk a little bit about competitors and the tariff regimes that apply in their host countries overall. So, John, you might move on to the next slide please.

Just to recap perhaps who we are. We are owned 50 per cent by Alcoa Inc and 50 per cent by Kobe Steel. We were established in 1996. We have an asset base of approximately $250 million and we operate two rolling facilities, one adjacent the Alcoa's aluminium smelter in Geelong and another one in the western suburbs of Sydney in the suburb of Yennora. Capacity around about 180,000 tonnes of rolled products, rolled aluminium products per year with the main product lines being rigid container sheet, often referred to as can stock used in the manufacture of beverage cans. We also produce aluminium foil and common alloy products overall. We employ about 800 people.

I've put the overall revenues up there and I think if you look at our total export revenue in three years of 1997 through to 1999 it's $854 million, and the point I would like to make with that is that for every $10 of export revenue we bring into the country, only $1 of that is actually expatriated out of the country associated with raw materials purchases or dividends and so forth. So the balance is overwhelmingly in favour of being a net export gain to Australia from our business overall. The business has grown in recent years, although you will see we've started to drop in revenues from 98 to 99, and that's both due to a lower price of aluminium as part of the component of our product during that period but also we are starting to see volumes reduce for us following on earlier significant growth we've had in the business, and I'll talk a little bit about some of that later.

We export somewhere between 60 to 65 per cent of our product, so the export markets are very important to us. Asia, I guess, is seen as a critical market for us. The marketplace in Australia is relatively flat, offering very little growth certainly in the can sheet area and also in the arrogate areas of other aluminium rolled products. So we look for our growth particularly in the Asian region overall. In terms of currency depreciation, we have a significant portion of our raw materials priced in US dollars or denominated in US dollars, and that metal component can actually represent in terms of a can sheet up to 75 per cent of the total revenue. So the product is highly geared around the US-denominated cost component. We also have other costs coming in, such as lacquers and freight which come in to us in US dollars. So we do see a benefit obviously in labour costs as well. Lacquer, I think, stacks up as our third-largest cost after metal and labour in our business overall.

MR WOODS: Can I just ask at that point, is that common with your competitors as well though? Are they all dealing in US dollars for their inputs?

MR OSBORN: Certainly in the metal component of raw material that is quite common but you - - -

MR WOODS: And, as you say, that's 75 per cent of total revenue.

MR OSBORN: Yes.

MR WOODS: So that doesn't distinguish you from competitors.

MR OSBORN: No, except that some competitors have seen currency devaluations well in excess of what the Australia dollar has seen over that period, and we talk about South Africa and perhaps Korea as two significant in that area. So we don't see a significant benefit. There is some benefit in there but it does not have the significance to us that the report would have suggested.

MR WOODS: That will takes us back to your second point that you raised initially.

MR OSBORN: Yes. I guess we also have to deal with the issues of volatility and the normal risk management processes associated with managing currency and that does add a cost to the business. Sometimes you can get it right. Other times you can get it wrong and you only have to read the financial press to see where people have made poor hedging decisions.

MR COSGROVE: In what currency do you trade your exports?

MR OSBORN: In US dollars.

MR COSGROVE: So you've got a hedge there of a fair extent.

MR OSBORN: We do have some balancing hedges but we do have a significant currency hedging program as part of our business. It's a very important part of our operation overall.

MR WOODS: Again at the risk of interrupting your flow, but have you found in your experience that the capital markets have been sufficiently mature for you to be able to deal with currency hedging to the extent that you would wish? I mean, is there any inadequacy in the capital markets?

MR OSBORN: No, there's not. In terms of the derivative mechanisms and so forth there are no issues with that. The issues are around the robustness of your own decision-making, yes.

MR WOODS: That one I fully understand. But just to recap, the depth of the capital market in itself isn't an impediment in the processes of the management judgment.

MR OSBORN: Is not a barrier in that process, no. All the instruments are there that you may wish to avail yourself of.

MR WOODS: And you're a fairly large user and at large scale in that market.

MR OSBORN: Yes.

MR WOODS: So I mean, you're not a bit player. Thank you.

MR OSBORN: I guess the other aspect is a significant part of our capital expenditure relates to products that are relatively unique to the aluminium industries in terms of metal casting and metal rolling, and are usually denominated maybe in US dollars or in yen, depending where they've been imported from as well. So they provide some offsets as well. So it's not quite the glowing story that you might think in that sense.

I guess one of the issues that we really have with this process and I guess the findings is our competitive environment, and that's really the only thing that I can look at as a managing director of our organisation. I think I brought to the commission's notice last time that Hulett Aluminium had invested $US450 million in a rolling mill in South Africa. We have been a long-time supplier to that market, 20,000 tonnes per year in recent years and basically our last shipment went into that market in May of this year and we anticipate not being able to ship in the future. South Africa has a tariff of 10 per cent in place in terms of rigid container sheet products coming in.

So we have the situation where Hulett Aluminium have now commissioned a new plant able to import their product directly into Australia in terms of cansheet with no tariff and in a reciprocal sense we have a 10 per cent barrier going into their market, so a significant issue for us. It's 20,000 tonnes out of our current volumes. I think last year we produced about 145,000 tonnes. So it's quite a substantial dent in our output which we have to place elsewhere. I think we also mentioned that the Alcan Aluminium have invested in one rolling mill in Korea since we spoke to the commission last time. They have expanded that to two rolling mills with an intention to take both mills to a capacity of 600,000 tonnes per annum. We have been importing product into Korea at the rate of 12,000 tonnes per annum. That has dropped back this year to 8000 tonnes per annum because of the Alcan start-up in that country.

We expect that will also drop to zero because we currently have a tariff, or there is currently a tariff concession going into the Korean market of 6 per cent. It's 8 per cent on other than cansheet products. Alcan are currently lobbying the Korean government and the Korean government is currently reviewing removing that concessional arrangement with the tariff being restored to the full 8 per cent level. We see absolutely no indication from those countries of moving towards a tariff reduction regime and in fact we believe part of the investment decisions that have been made have been made under the understanding that it would be ongoing tariff protection for those producers.

MR WOODS: Sorry, you've been highlighting the tariffs imposed in countries where there is new production and where you had previous markets. Are there any countries where there is a program of tariff reduction either in place or announced that will be of benefit to you - and I'm thinking of China's concessions.

MR OSBORN: Yes, there are and you're obviously well aware of the moves with China. My understanding is that would still leave us with a 6 per cent tariff going into the Chinese market and China is a very important market for us.

MR WOODS: It would be a tariff in common with your competitors from Korea for instance, so that you're both facing the one barrier in respect to the market.

MR OSBORN: Yes, that is my understanding, yes. But it's still significant and we're talking about, I guess, in the case of the foil and general sheet tariffs applying here compared with 5 per cent coming into Australia, so it's still a significant barrier.

MR HANNAGAN: The timing on those tariffs reductions in China are still set out quite a way.

MR OSBORN: I think 2004, was that - - -

MR HANNAGAN: 2005, from memory, or 2004. I mean, that does stand out quite a way from where we are at the moment. But there isn't another producer or competing country that doesn't have a significant form of tariff protection.

MR WOODS: No, I understand that point that is being made. I was just looking at the broader issue of where are our markets and what is happening in potential markets on tariffs.

MR HANNAGAN: In the case of China they have, as you know because it was trade and so forth that was negotiated in these tariff reductions with the Chinese government. But at the end of the day they are establishing and refining their operations and production facilities and they are doing that behind a delayed process of tariff reduction. You know, we do appreciate that there is a reduction but it is a significantly delayed process.

MR COSGROVE: Presumably though, thinking about medium-term investments, they would be looking through the existing tariff towards the level of assistance which they will face in 2005, wouldn't you think?

MR HANNAGAN: Yes, and where it goes beyond that of course is very important. You know, to see it come down to that level in 2005 is one thing. What is their intention to come down from that level beyond that period? That's certainly not open to any clear understanding at this stage. So you could say you could draw a line from there and say, well, we would expect as this market establishes itself, not only in its own region but indeed in the markets in which we export to, it would continue that tariff protection for its own domestic market until it had established a competing role with the Alcans in Korea and South Africans and so forth - so, yes, a good move to do - - -

MR WOODS: We know their first step and we can speculate on their next step, yes.

MR HANNAGAN: I think the more significant news was for the alumina going into China, which is much more significant.

MR OSBORN: Perhaps the other point in there which is, I guess, a demonstration of some of the restructuring costs that are real, has been the announcement of Capral Aluminium in May, that they're closing their general sheet and foil rolling operations. They are the largest in that field, in the foil and general sheet supply in Australia. There's a loss of 200 jobs associated with that and basically will leave Kaal Australia as the only aluminium rolling operation, semi-fabricating operation, in this country.

MR COSGROVE: Is that likely to enable you to expand your own production?

MR OSBORN: This is a very moot point. There are some opportunities for us to move some of our product from aluminium cansheet into the general sheet and foil area. We have investment requirements with further processing lines associated with doing that to service some of the growing markets in the marine and transport area for instance. It is also a market that has a significant level of import at this point in time. We don't believe the 5 per cent tariff is an impediment to import. We believe a lot of the volume supplied by Capral will be taken up immediately by imports. There's certainly no shortage of supply available in that market at all. We see that as of some benefit to ourselves.

But I guess what we do find is we're in a policy environment where we - and perhaps, John, if you move to the last slide it might be illustrative of that sense - are finding ourselves in this sort of environment where Australia, I guess, seems to be on a mission to move ahead of the rest of the world in tariff reduction, certainly for our operations, aluminium semi-fabrication. It makes that a fairly difficult decision because you may want to - and both our owners operate on a global basis. When you make investment decisions you look at where you can best place those assets and get a return. Australia as a totally open market appears very, very unattractive for an aluminium semi-fabricator to set up operation in that sense.

Now, if you had a multi-lateral removal of tariffs, a level playing field in that case, that would be an entirely different nature because we do have some tremendous advantages, particularly with our workforce and so forth and having the raw material in close proximity. But those are very readily offset by the type of investment environments offered in those other countries and potential future market growth, because you do look at operating in a very small market in Australia. So you have to be an exporter, so any decision you make associated with your business is associated with both the Australian market and access to other export markets.

MR COSGROVE: Could I ask at this point, Wayne, what was the rationale behind the decision around about the mid-90s to establish the joint venture in Australia?

MR OSBORN: If I perhaps go back in history, Alcoa and Kobe Steel in 1990 established a joint venture in Japan, which was to access the aluminium cansheet market in the Asian region. It was seen as a high-growth market and that certainly has been the case up until perhaps 1998. There has been very good growth in that market. The decision by Comalco to place their assets on sale here, the Sydney or the Yennora plant, we saw as - or I guess the joint venture partners saw as an opportunity to consolidate and I think scale of economy is very important so that this business - - -

MR COSGROVE: So there were existing operations?

MR OSBORN: Yes, so it represented a consolidation of existing operations. It represented very significant cost savings associated with bringing the two operations together. The Yennora facility was running at a substantial loss at that point in time and it was restructured and significant costs removed from the operation. So this was seen as a venture with the same ownership to be able to access that same marketplace overall and so that was the decision associated with that. I must admit the investment decisions were made in a criteria that part of - only the tariff associated with body stock would be removed; that the tariff associated with end stock, which is the lid of the can, would in fact stay in place, and that subsequently did not happen, so if you look at this from the perspective of the shareholders making an investment, we've had one change in tariff regime which was not anticipated by them and we perhaps move to another change in tariff regime which was not anticipated by them, which they clearly see when they look on a global basis as being unbalanced and unfair.

MR COSGROVE: At the time of the joint venture decision though was the main focus of your market expected to be the Australian domestic market or were - - -

MR OSBORN: No, the main focus was to participate in the growth in Asian markets and we saw the - - -

MR COSGROVE: Even though there was the - was it in Japan, you're saying? There was also a production facility.

MR OSBORN: There was also a joint venture, yes.

MR COSGROVE: Yes.

MR OSBORN: That facility also ships product into the Asian market.

MR COSGROVE: Okay, thank you.

MR WOODS: Given that global nature of your owners, and the importance of export to your plants in Australia, presumably therefore you're fairly closely following, if not being a participant in the exploration of some relationship of Australia to regional free trade associations. Do you see this as sort of some part of your future strategy?

MR OSBORN: I'm sorry, Mike, I'm not sure I understood the question.

MR WOODS: Looking at the development of the ASEAN free trade association do you see Australia being somehow partnered or related to as being - - -

MR HANNAGAN: Are you talking about APEC, Mike?

MR WOODS: Well - - -

MR HANNAGAN: I mean, the focus on APEC - it's interesting that APEC seems to be disappearing from view.

MR WOODS: That's why I wasn't actually - - -

MR HANNAGAN: It had been, I think, a particularly unsuccessful structure.

MR COSGROVE: I think what Mike is referring to is - in fact, I think a task force now already working on the possibility of a link between - - -

MR HANNAGAN: Yes, I understand.

MR WOODS: Between CER and AFTA.

MR COSGROVE: And AFTA, yes.

MR HANNAGAN: And that's where I - more than APEC. I was looking at the AFTA CER - - -

MR OSBORN: Look, our argument is not for retention of tariffs. It's basically for even access to markets and that's associated with, "Let's move at the pace that the rest of the world is moving," rather than becoming - and I understand that Australia wants to show a lead to the rest of the world, believes that would be beneficial, in other areas, and possibly that may be, but all I can do is point out to the commission that we see that as extremely detrimental to ourselves.

MR HANNAGAN: There are some other elements in here that I think are worth just noting into those markets that we're competing with and trying to export to. At this stage Australia would be the only country that's considering a carbon tax through emissions trading permits for greenhouse gases, the only country. Out of those countries there the US is certainly not doing, the EU is exempting its aluminium-based industries through an energy tax system on any impact of greenhouse measures. I don't think many people are aware of that at this stage but the EU in typical style are protecting their own position, have developed an energy-based tax system for their car industry, aluminium and so forth which gets away with - they just pass the tax for greenhouse emissions down to the consumer but leave those large industries intact, but we in our current national greenhouse response strategy are considering aggressively, the Australian greenhouse office, very aggressively a domestic emissions training system which has been modelled firstly by Allen Consulting Group who did it for the Victorian government on the economic impact of emissions trading at $44 a tonne per tonne of carbon dioxide equivalent, so it is going to be a significant impact on the cost base for any aluminium-based product, a significant cost impact. You add that to, you know, the other issues of running ahead of - - -

MR COSGROVE: It's not quite decided though yet, is it?

MR HANNAGAN: One would hope not.

MR COSGROVE: Well, what from I have read there's quite a debate going on.

MR HANNAGAN: But nor is this as far as I'm aware, Mike - but anyway.

MR OSBORN: I think they're the major points that we would certainly like to make today. I'm happy to take any questions.

MR COSGROVE: Thanks very much, Wayne. One issue that interests me, and I might not have noted the figure absolutely correctly, but did you say that these new investment in plant in Korea will operate on a scale of about 600,000 tonnes per annum?

MR OSBORN: Yes, that's correct.

MR COSGROVE: Your capacity is - - -

MR OSBORN: Is about 180,000 tonnes.

MR COSGROVE: It's a big difference. I mean, in other words, is part of your competitive problem that you can't gain sufficient economies of scale to reduce your production costs? Or more generally, how does the size of your plants compare with what's regarded as world scale efficient plant size?

MR OSBORN: In terms of cost I think I mentioned earlier that we have had an enormous focus on clearly a plant in Sydney that was non-viable in its prior form which was why it was in fact for sale. We have a major focus around reducing cost. We operate under a production methodology associated with a Toyota production system which is a pull or a can-ban type system, we work on reducing inventories, so we have a significant level of overall internal efficiency. We have very good flexible labour practices that people in our business clearly understand the impact of cost overall, so we do set ourselves against, you know, larger scale mills and we do very well against that. We don't believe that's a major impediment to us being successful overall.

Certainly scale economies do help you and you would like to have the mechanisation, and particularly the labour effectiveness that that sort of scale economy brings you, but you can be very resourceful in working hard against that, particularly when your people in your business know their job depends on being cost effective against larger operations.

MR HANNAGAN: You would also need to take into account that Alcan, in investing in both Coralu and Tai Han Wire Co is going to have a significant upgrade. Now, they are not at levels that would compete with us in terms of efficiencies at this stage. They are looking for that additional protection of an increased tariff back to its established rather than a connectional one that applies at the moment while they go through that investment process. So the question you're asking, are we disadvantaged by size - at the moment, no, we're more efficient, but they are looking for a period of protection as they go through and invest significantly more capital to give them the sort of competitive advantage that we have in Kaal at this time, and then with that tariff protection wall, will significantly enhance our position, and also their currency.

MR COSGROVE: When you say you're not disadvantaged on the size, and I assume this is essentially a capital-intensive type of activity and - - -

MR HANNAGAN: No, I'm talking about essentially efficiency, not necessarily size. At the moment Kaal was extremely efficient, and at the moment the Tai Han Wire Co would not be as efficient as Kaal is. What Alcan are looking to do as they reinvest significant capital is have the protection of that tariff that they're lobbying the Korean government for.

MR COSGROVE: Yes.

MR WOODS: I wouldn't mind going back to those first three points, John, or if you want to follow something up first.

MR COSGROVE: Yes, I was just checking whether this information has already been provided - but the new South African plant, what's its size, do you know?

MR OSBORN: It will be in the region of around about 170,000 tonnes to about 180,000 tonnes per annum.

MR HANNAGAN: Which one do you want?

MR WOODS: The one with the three dot points starting off where you didn't like our recommendation.

MR HANNAGAN: That was a "no brainer".

MR WOODS: Let's just wander through those. Yes, that was it. Okay, I think we've sort of covered parts of the first - the second one. That's a common aspect - - -

MR OSBORN: Common aspect, yes.

MR WOODS: - - - across your competitors as well, and that soaks up at least 75 per cent of your total cost structure, or in fact of your total revenue, so a much higher proportion. Can you expand on that a little then as to why you come to the conclusion of your second dot point?

MR OSBORN: Yes. If you currently look in the Australian market and take a broader view than just aluminium, that you are competing against glass and PET for a container, any movement that increases the cost of metal in Australian dollars can put you at a competitive disadvantage against other containers, so we have seen in the soft drink market for instance that PET has gained significant share in market growth in recent years, whereas the can has not seen growth overall in terms of volume, so if you take a broader view of what that does to the total price of your product in an Australian market sense you don't see an advantage from that. In fact, you can more than offset the benefits by just the sheer leverage of the metal price.

MR COSGROVE: Are you saying that the exchange rate changes the essential reason for a shift from glass bottling or aluminium bottling to - - -

MR OSBORN: That would very much an over-simplification of quite a complex marketing issue in terms of consumer preference and so forth but it can be factor.

MR WOODS: You still can't get the little sliding pop-top things onto your cans.

MR OSBORN: We would love to be able to do that. That is one barrier, yes.

MR WOODS: I mean, if you look at your production and you've got a very high export component, so put that to one side and look at the domestic market and then within that looking at competition within the aluminium component but then looking at competition between your product and PET and glass, you're further subdividing it down and then you have got questions of style and marketing and preference - we're really bringing it down to a very small factor, aren't we?

MR OSBORN: What, the - - -

MR WOODS: The impact on the exchange rate.

MR OSBORN: Well, perhaps I put it the other way. I guess the commission took a view that the devaluation in the Australian dollar was of significant benefit and in fact offset the impact of tariff reductions. I guess we're taking it back the other way and saying we clearly don't see it in that context. While there are obviously are some benefits which reflect in labour costs for instance, there are many other offsets that drive against that. I haven't sat down and modelled that but I can tell you that there are some large factors that go against it so - - -

MR COSGROVE: Circumstances will vary from industry to industry no doubt.

MR OSBORN: Yes. We just wanted to make that point; that this is not just something that was cost based entirely in Australian dollars and therefore the cost base shrunk in that proportion.

MR COSGROVE: But in the end, given the common US dollar pricing of the major input cost, what really matters in terms of the exchange rate effect is the movement in the Australian dollar relative to your foreign markets and the domestic market to some extent I suppose insofar as you're vulnerable to important competition.

MR OSBORN: Also relevant to the exchange rate movements against US dollars of competing countries as well.

MR COSGROVE: Yes, that's what I mean.

MR WOODS: That relative.

MR HANNAGAN: There has been enormous volatility. I mean, to manage a hedge program of the last six months would have required some significant skills, I suspect, to bring you out in front on the ledger. I mean, we've gone from 56 cents a few months ago to - well, I don't know what it is this morning - 60.

MR COSGROVE: 60, yes.

MR HANNAGAN: That is not an insubstantial movement that you have to try and manage. We're not talking about managing as we were three and a half years ago - the dollar around 71, 72 cents. It traded in a very, very narrow band. We have a significant volatility now in the currency that is extraordinary difficult to manage.

MR COSGROVE: Yes, no doubt, although it seems that 75 per cent of your sales revenue is hedged naturally because of the US dollar price on the output side and on - - -

MR HANNAGAN: It depends where you sell it and at what time in the market you sell it. I mean, there's not a natural compensation just because you happen to have revenue coming in in US dollars.

MR COSGROVE: There can be a timing difference, yes, between the purchase of your inputs and sales. Still, there's a - - -

MR OSBORN: We could perhaps entertain the commission for the rest of the day on that issue, but it is complex and it is - - -

MR WOODS: No, it's all right. We understand the point.

MR COSGROVE: No, that's fine. I'm prompted by the remark of our previous participant to ask whether that big United States market, where the tariff is 3 per cent, is an opportunity for you in terms of export growth, or is the scale of production there more efficient, which closes you out on that ground?

MR OSBORN: I guess we're in a situation where one of our owners has significant investment in Japan in production facilities there and the other one has significant investment in the US, so it's really not logical for us to look to the US market and - - -

MR COSGROVE: So, regardless of relative efficiencies that might exist, those markets are effectively carved up?

MR OSBORN: There is no barrier in preventing - - -

MR COSGROVE: You could export though?

MR OSBORN: We could export, but it is not logical to do so if you take a - - -

MR COSGROVE: It would be no logical, I guess, if the cans can be produced more cheaply by the American plant than you can, taking account of transports costs and - - -

MR OSBORN: You've got transportation. You've also go the lead time associated with it.

MR COSGROVE: It's essentially for those natural protection reasons that you wouldn't be exporting.

MR OSBORN: Yes.

MR COSGROVE: But you can export as far away as where at present? South Africa, for example.

MR OSBORN: South Africa.

MR COSGROVE: Similar, perhaps even higher transport costs, I would imagine, to South Africa than to the US, or at least to the west coast.

MR OSBORN: No, South Africa is reasonable at the moment and transport costs until recently had actually started to reduce a little, which made the export burden less of an issue.

MR WOODS: Do I take it from that one qualification that you two are making a comment on what's happening to international sea freight costs?

MR OSBORN: Sea freight costs are now starting to rise again, particularly with the pressure on oil prices, but prior to that, prior to perhaps 12 months ago, had been dropping as the market had become more competitive.

MR COSGROVE: Does that provide you, on the converse side of the coin, with a degree of natural protection in the Australian market, the level of transport costs?

MR OSBORN: We don't believe so. I guess one of the issues is getting material across to Perth is just as expensive as getting material to Singapore as well. So there are some logistic issues with the Australian market that it's a - - -

MR COSGROVE: The bulk of your domestic sales - - -

MR OSBORN: Shipping from Geelong into Melbourne is obviously very inexpensive for us, so it really depends.

MR COSGROVE: The bulk of your domestic sales I suppose would be along the eastern seaboard, including the Victorian market.

MR OSBORN: Melbourne, Sydney, Brisbane and a reasonable component going across into Western Australia.

MR WOODS: Is that because of the marine side of it or were you still talking canstock?

MR OSBORN: Yes, and we typically rail or road freight into Western Australia.

MR HANNAGAN: The other issue in the American market for Kaal is that one of the parents, Alcoa, has recently acquired Reynolds Aluminium in America and that has a significant rigid packaging division attached to it. No?

MR OSBORN: No, they have general sheet rolling but they don't - - -

MR HANNAGAN: General sheet, yes.

MR OSBORN: Yes, and for all products.

MR COSGROVE: I don't think I have any further questions, thanks very much, Wayne and John.

MR OSBORN: Thank you, gentlemen. We appreciate being able to attend and put our case.

MR COSGROVE: We're grateful to you for continuing to take an interest in the inquiry. Thanks very much.

MR OSBORN: We have a vital interest, I can assure you.

MR COSGROVE: We might take a short break to allow people to stretch their legs and have a cup of tea or coffee, I think perhaps as well. That's to say, we can resume in about 15 minutes.

MR COSGROVE: Let's resume. Our next participant is Penrice Soda Products, and as with the others, Michael, would you mind indicating your name and the capacity in which you are giving evidence.

MR CARTER: I'm Michael Carter, the general manager, sales and marketing, at Penrice Soda Products operating out of Osborne in Adelaide, South Australia.

MR COSGROVE: Thank you. Well, would you like to make your points to us.

MR CARTER: Yes, thank you very much for allowing our company to present our views on the recent release of the draft report. Penrice is very critical of the proposed elimination of tariffs as proposed in the draft Productivity Commission report, and I think more than that, I think we are gravely concerned that the government does not understand the positive importance of economic impact of having major manufacturing industries in Australia, and I think that's something that we really need to take into account in this next round. In support of our retention of current tariff structure and harmonisation, and I think the word there is harmonisation, that is very important in this, or reciprocity. With our trading partners, we offer a number of comments.

First of all, we as a soda ash manufacturer and a sodium bicarbonate manufacturer - it's a chemical commodity product - we do not compete on a level playing field with our trading partners. Never have, and at this stage never will, that I can see, that we can see as a company, particularly with our main competitors in China and to some extent the USA. For instance, the duty rate in China is around 12 per cent on soda ash and sodium bicarbonate, and there are other non-tariff barriers, both in China and in other countries that also are there as prohibitive in competing equally. In Australia on our soda ash we have a 2.5 per cent duty on soda ash for developing country, and 5 per cent for developed country, and as a downstream product, sodium bicarbonate has a zero duty, yet we export something like 18 per cent of our $112 million turnover to South-East Asian countries or Pacific rim countries.

I have included a table in my submission of the various tariff rates for major chemical commodities across a number of countries, and whilst you see places like Malaysia will have a number of zero tariffs on a number of chemical commodities, it's because they manufacture those products. Where they manufacture, they still have very large tariff rates. You go to China, and China certainly, as I've mentioned in our case, has 12 per cent on both products and anything up to 18 per cent on a number of other chemical commodity products.

MR WOODS: Sorry, can I just clarify that? So when we're looking at Malaysia for instance, you're saying that they've targeted - that they tariff structure those products that they manufacture domestically.

MR CARTER: Yes.

MR WOODS: But in the two that you're particularly looking at, soda ash and sodium bicarbonate, they've got zero tariffs.

MR CARTER: That's correct.

MR WOODS: So they've got an open market in the sense of you and China equally being able to compete into that market.

MR CARTER: Yes, that's right.

MR COSGROVE: I was going to ask in the same context, Mike, whether if you look at say Thailand or the Philippines where the tariff is quite low, Indonesia as well, are they also non producers of - - -

MR CARTER: All non-producers. The guys with low tariffs are non-producers. The countries with high tariffs are producers.

MR WOODS: But in the sense of competing into those countries, then you're competing with a level playing field and you're not having to overcome any - - -

MR CARTER: Not in those countries, no.

MR WOODS: Are they your predominant export markets?

MR CARTER: No, there's no one major market. There's no major marketer that's predominating for us. We certainly export into South Africa, which I haven't in fact included here, but they do have duties, and our markets are spread really fairly evenly around Thailand, Taiwan, Malaysia, Indonesia. We cannot compete in China. We cannot compete in India. India has the highest rates of all of 30 per cent. In fact when you compound those rates, they're upwards of 48 per cent, and in fact that is really a closed shop. There's no doubt about that.

MR WOODS: You referred in your earlier and more recent submissions to China and the US in the sense of reciprocity, but are they also your major competitors in these other markets, or - - -

MR CARTER: Yes, they are.

MR WOODS: So things like the high production in India is predominantly just a domestic - - -

MR CARTER: It's a domestic protection in the case of India. I think with the rest of our trading partners in South-East Asia, we are competing head-on with the Chinese and the Americans.

MR WOODS: That would flow, as you say, across to the African continent.

MR CARTER: Yes. I think the other issue there is that in terms of demonstrating that non-level playing field, is the submission by BHP in the first round, and I think they put a very good case for that, and I think it's one that the commission should go back and look at as additional support that clearly shows the lack of reciprocity in the Australian comparison to the rest of the world. The other issue for us is that we also call on the government to review the anomaly that we have in the duty rate of sodium bicarbonate and for that to be increased to the same level as soda ash for harmonisation reasons.

MR COSGROVE: Could you tell us why it is that that anomaly exists? It does seem a bit odd.

MR CARTER: There are some historical view to that, and some of it's lost unfortunately with people that have moved on, but my understanding was that the plant that we now own of course was an ICI plant until some 10 years ago, now Orica of course, and I think in the round of general tariff cuts that took place, what, in the - - -

MR COSGROVE: Late 80s.

MR CARTER: Late 80s, yes, 87, there was an amount of pressure put on particularly soda ash because it was seen as the high volume product from that particular plant. I think it's fair to say, and it's easy in hindsight to say this: that in fact there was not a lot of importance placed on soda ash at the time. In fact that was actually let go to zero. We on the other hand see sodium bicarbonate as a growing market, and in fact you'll see in my notes, my submission here, that we've actually invested $15 million in an expansion program to produce more sodium bicarbonate for both the Australian but more particularly the export market, and what we see here is this anomaly that's there. You'll find in my submission we talk there about that it's well within the APEC and what we call the CTHA agreement guidelines for it to be the same, and we have put a submission into DISRA to that effect, and we will continue to push for that anomaly to be addressed. I think all we're asking for there is really what we all want is harmonisation, if nothing else.

MR WOODS: You've got information variously in both open submissions and in commercial in confidence, and I'll do my very best not to transgress those borders, but can you advise us therefore of what you see as your prospective opportunities in the export - I mean, you refer in your public submission to being world competitive manufacturer, so do you see exports taking up a larger share of your total production across both components, or mainly the bicarb soda or - - -

MR CARTER: It would be our intention to concentrate on sodium bicarbonate for export. The current level of - - -

MR WOODS: Being the higher value-added part - - -

MR CARTER: Yes, because it's a higher value-added product basically. I mean, we are able to, in some specialty areas we export that product into China, and it's 20 tons per month out of a total capacity of 50,000 tons. We can't compete on the general level in China because of the duty rates there, so we're able to in some cases, and very niche market areas, do that, but it's very small volume and the returns just on that alone would not justify the increase in the production that we've put forward. So all of that capacity increase on sodium bicarbonate is destined for the export market.

In our submission then we certainly call on the government to review that anomaly on sodium bicarbonate, to increase it to the same level as soda ash, and as I pointed out earlier in that discussion, that it's still within the APEC and what we call the CTHA guidelines, and that is in fact an agreement called the chemical tariff harmonisation agreement between countries, which allows for harmonisation of tariffs between those parties. I think you'll find that the maximum there is in fact 6.5 per cent.

Australia has not gained any trade advantage other than, we believe, to feel good in the international community from its proactive stance on free trade. DFAT has not demonstrated any reciprocity in any trade negotiations during this reduction in tariffs or moving to zero tariffs. I don't believe that's been demonstrated.

MR COSGROVE: Well, I think they could, but whether they have, I'm not sure. I think they have, but in the Uruguay round, for example, ended I think in 94, Australia was given credit. In other words, earlier reductions in our tariffs undertaken by Australia alone, were recognised as things which could be used with which to negotiate trade - not trade concessions, but, you know, trade tariff reductions on - - -

MR CARTER: Or market access perhaps.

MR COSGROVE: Perhaps that as well. I'm not familiar with all the details, Mike, but - - -

MR CARTER: But I don't believe that's really - I don't believe there's been a positive influence from that though. I don't think there's been a positive impact on the Australian economy from that.

MR COSGROVE: That's a separate question which, you know, views can differ about, but I think the simple point they were trying to make is that the mere decision by an Australian government to reduce its own tariffs unilaterally does not mean that you have lost negotiating coin, so to say, or at least in the Uruguay round we did not.

MR CARTER: Okay, I - - -

MR COSGROVE: It may not always be the case.

MR CARTER: I think we would dispute that in probably most other cases, and I think there's an example that we can give you of that. Penrice has little evidence of the developing country competitors, or even the developed ones reducing their chapter 28 which is the area of products that we deal in, reducing them down to our current levels or to zero. We've not seen any evidence of that. In fact we can't get what is agreed with China in terms of further reduction. We do not have that information. I think we're also saying that the Productivity Commission, I think it's important that you are able to demonstrate reciprocity before there is a removal of tariffs. We as a company, and I think most other people would say, yes, tariffs can go to zero and promote free trade, but that's got to be on a harmonised basis. It cannot be unilaterally Australia alone.

MR WOODS: Unless there are overwhelming benefits to the Australian economy from that happening.

MR CARTER: Yes, but in our case I think we demonstrate that that's probably not so. There may be in other cases, but certainly in the case of soda ash and sodium bicarbonate, we don't believe that's so. I think the other issue there in relation to tariffs which is very important is the issue of the comparison. The tariff rates into Australia are based on an FOB basis. The tariff rates in all other countries are CIF, and that is something like another 3 per cent you can add to every other tariff rate as an advantage.

MR COSGROVE: Yes, I don't know whether it's as much as 3 per cent, but we have in our calculations of the likely effects of removal of tariffs, taken that difference into account.

MR CARTER: Well, if you go to zero, how does that take it into account?

MR COSGROVE: You take into account the effect of the fact that you're not moving from five to zero, but from I think something more like four to zero. I stand to be corrected on the precise number, but in other words we've adjusted the current level of assistance to take account of the fact that you rightly point out that we levy tariffs on FOB.

MR CARTER: We certainly believe that the calculations would show it's around about the 3 per cent level, and I think PACIA would also show that that's of the order of the difference. In the case of sodium bicarbonate and soda ash, our access to trading partners has not improved with the low tariff structure that we have in place. We've not seen any benefit in access to countries because of the low tariffs we have here in Australia. There is just no equity in that arrangement at all that we have been able to find in our trading.

I think it's also fair to say we don't see it getting any better under zero tariffs, to be honest. If it hasn't worked now, we don't see it getting better access under zero tariffs, and I think it's fair to say that in Penrice's case it would cause us to review the possible investments that we have in Australia if we can't demonstrate fair trade practices apply with our trading partners. I think the simple philosophy for us is that we should only act in coordination with other countries on a harmonised approach rather than going first, and in fact my understanding is that we should be either increasing or decreasing tariffs where there anomalies existing, and I'm aware of another one in frozen chips where there is quite a disparity as well. So there are a number of anomalies and I believe the issue there is simplification of the tariff structure is important, and harmonisation.

We certainly have gained no advantage from acting first in terms of our tariff reduction and we would just say that we've lost considerable bargaining power, other than your comments on Uruguay, from our weakened bargaining position . The example I can give you of that: with China's potential entry or entry into WTO the US guys very clearly, because they're a worldwide producer of soda ash under their ANZIC export company, took a very hard line to China in relation to the China soda ash industry in the bargaining process for their entry into WTO. They had a document there that said, "You will close all of your uneconomic plants, you will restrict production to this, you will do that, you will do that," and they were successful in some of that. The only reason they were successful was because they had something up their sleeve. The bargaining power was, "We'll let you into WTO if you go down this path."

I believe that it's quite a fallacy, and I think you'll find a number of people who are in a commercial environment. The answer is, you can't go into negotiation and expect to have a win-win on both sides unless you've got something that each of you can bargain with, and I think that was also reiterated recently by Minister Vaile, if I'm not mistaken, as well. I think he suddenly woke up to that one.

The view that trade and investment liberalisation will be enhanced with zero tariffs in our view is not correct. The evidence is overwhelmingly that under the current tariff regime the chemical industry has invested offshore and we've not gained any better trade access from the current Australian low tariff regime. Penrice will not continue to invest in expansion programs with consequent loss of trade opportunity if we cannot achieve trade parity in the regional markets. We also belong, as the previous speaker, to a worldwide company. They will not invest in Australia if they don't think they're going to make money out of it for it to be competitive both in the domestic market here and in the export markets.

Low price tariff imports from high tariff countries and the disparate duty rates in Australia cause a distortion in the investment criteria in our industry, and I think PACIA will present and have presented their flow of chemical imports into Australia and the number of investment opportunities that have been lost in Australia because of this, and I think they're substantial. Penrice does, however, acknowledge that reduction in tariffs can occur and should occur in Australia, but only where it's consistent with our trading partners, and I mean the manufacturing trading partners. I think that's the important issue here.

It's easy to say that Malaysia can have zero, but if they don't make the product it doesn't really matter. They're giving tariff concessions for industries to start up for a period of time in the plastics regime, for instance. Any reduction must be based on reciprocity and harmonisation of tariff levels and the removal of non-tariff barriers, and I'm aware of a number of tariff barriers that occur. For instance, the US has a number of percentage import impositions called harbour maintenance and other maintenance and other issues which in fact do add something like up to 1 per cent to the tariff rate. China, for instance, gives its exporters 9 per cent tax relief to export over and above the fact that their local domestic users get tax relief on VAT so that they will use local products. It's these non-tariff barriers also that need to be addressed in this whole round of harmonisation with our trading partners.

I think finally in relation to international trade, because of the high tariffs and our exposure to unfair trade practices, the current safeguard of potential antidumping action must remain in place. I think we'd all be aware of some moves to review the antidumping mechanism, and I understood in your report you were always saying that in fact it was there as a safeguard. I don't believe these things can be taken in isolation. You cannot take tariffs in isolation, as you cannot take non-tariff barriers in isolation, as you cannot take antidumping in isolation. These are quite integral systems in relation to trade matters.

In relation to world competitiveness of our company, we are a world-competitive manufacturer of soda ash and sodium bicarbonate. We're part of a worldwide group where we're evaluated publicly through an annual report. A report was just issued, British Sulphur report or the CRU, examining the cost competitiveness of all plants around the world. We're in the lower sector, the lower quartile, of manufacturer plants in terms of cost structure. This is in fact even comparing it with the Chinese.

MR COSGROVE: Is that done using some exchange rate factors to - - -

MR CARTER: Yes, it is. It's actually normalised for exchange rates. It's all in US dollars and, whilst it's the best information available and some of it is slightly out, it's a good relative measure of the competitiveness of our plant versus other plants. Internally of course at Penrice, because we're a worldwide company, we must meet key performance measures in line with our sister companies throughout the world, and I think that would be true for any international group.

We in fact also exchange technical information with other manufacturers, including the Chinese, I might add, so we do have visits both into China and from them to exchange technical information for plant improvement and particularly for environmental improvement. It's probably fair to say that the Chinese, in the soda ash industry at least, have got some huge problems in relation to environmental issues. Some of those issues are not being taken into account when they cost their product, I might say, although in a number of cases some of the plants are actually doing very well and some of them actually face some quite heavy impost on environmental licences. Others don't in China.

We just recently undertook a staff restructuring program with a loss of something like 40-odd staff just to further remain competitive, and that's a continuing process which I'm sure other people would - - -

MR WOODS: Do you know what that is as a percentage of total staff?

MR CARTER: Around 20 per cent. It's quite a substantial leak. In terms of financial return and investment, the net return on investment of Penrice is approximately 3 per cent, and a reduction of tariffs on soda ash of 2.5 and 5 per cent to zero will clearly impact our profitability and certainly raises the question of the economic viability of Penrice. I've just been away off site with our senior managers in our team looking at the viability of Penrice in terms of its net return and its EBIT return, and 5 per cent duty, let me tell you, makes a bloody big difference to our profitability. It's $US5 if it's from America, and if that was to be lost, then quite frankly I believe the decision would be to say we would seriously have to look at closing our facility.

Penrice is subject to unfair competition from China especially, where several of the largest state sector plants report huge losses, of the order of $US63 million, and are still allowed to continue to manufacture and to cause price depression even with the current duty rates into Australia. I might add in anticipation of a question that we are in fact looking to take dumping action against the Chinese in relation to both soda ash and sodium bicarbonate as another measure, and I think that reiterates my earlier comment about having an integral system in terms of trade.

MR COSGROVE: Do you know if other countries have done or are doing likewise?

MR CARTER: Korea has gone against the Chinese and won, and so has India.

MR COSGROVE: They've both been successful?

MR CARTER: Yes. In addition, sodium bicarbonate, a downstream value added product of soda ash, has zero duty, and this impact is holding back our ability to be competitive against predatory pricing from the Chinese in the region. Our ability to sell this additional 25,000 tonnes per annum into the export market at a value of $A7.5 million clearly must have some implications on balance of trade. I would have thought that what we should be doing is making sure we promote world competitive plants and we actually see them enjoying a substantial export to help our balance of trade. I don't believe that we're seeing that from this government at this point in time, and I think it comes back to the real concern we have about their perhaps lack of policy in relation to manufacturing, particularly in the chemical industry, and I'm sure that PACIA will elaborate on that further.

It's clear that zero tariffs and sodium bicarbonate impact our financial return and further investment decisions. Our parent company invested some $15 million in expanding our sodium bicarbonate facility in South Australia recently. We actually got another $1.5 million in just a bag packer, which we're actually bringing from NZ of all places, and it's a very good bag packer, to actually make sure that we've got the best quality bags in the world. This decision, this approval to spend this money as an investment proposal, was granted by our parent company on the basis that the government of Australia would aggressively defend its tariff position against dumping and its tariff duty rates.

MR WOODS: Can I ask what was the timing of the decision to put in the equipment, the $15 million? I mean, I understand the lags involved, but are we talking about a decision in 96-97 or that sort of thing?

MR CARTER: You'll find the process I think started in 95 and I think decisions were taken in 97 to go ahead with that project.

MR WOODS: So those decisions were taken in the context of the Bogor agreement and the like. They were already known and factored into your planning?

MR CARTER: Yes.

MR COSGROVE: Mike, on that last point you've made, that this investment decision was undertaken on the basic assumption, with the investment approval, that the government would aggressively defend its tariff position against dumping by other countries: do you have evidence of a statement to that effect?

MR CARTER: Not a statement from the government per se, but I think it's fair to say in making those decisions that we would expect that the ground does not change substantially in the future in making those decisions.

MR COSGROVE: That's a rather different point from the one in your submission here, which attributes to the government an intention to aggressively defend the tariff and dumping against other countries.

MR CARTER: That would still be so right now, that we would expect the government still to aggressively defend antidumping mechanisms right now.

MR COSGROVE: I understand that. To clarify my point, what I'm asking is whether the government actually said that it would do that.

MR CARTER: Not specifically in relation to this investment, no. In defence of our investment decisions already made in Australia against inequitable trade measures, if it's not a part of the Australian or state government platform, then the potential for further investment by our parent company will cease. I think that's very clear. We operate as a part of our complex as a salt harvest operation and a mine for extracting limestone, which are principal key raw material for our process. There is certainly some investment required to keep those in the best economic position in terms of their efficiency, in terms of heavy equipment and there is some further opportunity for us to invest in downstream products from those two operations as well. I think it's fair to say that our parent company would review some of the issues that we're seeing now unfavourably in making decisions and I think it's probably fair to say we've seen that by a number of other chemical companies as well.

The economic impact is such that the study by the South Australian Centre of Economic Studies recognised that Penrice is a major contributor to the South Australian economy and is vital to the growth in the wine industry and in other key industries. Perhaps I should say - and someone earlier was I think holding up a glass - the soda ash that we produce goes into making glass. So in fact a substantial proportion of our product goes into the ACI facility where they're making wine bottles for the growth in the wine industry. That is quite unique in that the wine industry as an exporter now is actually taking all the bottles offshore, so in fact there's not a recycling component to that. So in fact that is a substantial growth industry in terms of its export nature.

The study found that Penrice's operation would contribute 120 million to gross state product and to the provision of more than 1800 jobs, generating $68 million in household incomes. Now, we employ something like 240-odd people. What we're saying is the trickle-down effect of that is 1800 other state jobs in South Australia. In a more recent study - - -

MR COSGROVE: Yes. If I may interpolate there, we often hear these sorts of arguments from people but the problem with them is that they don't add up. I mean, if everybody trickles down to, let's say, a much smaller multiple than the one you've mentioned here, then the Australian economy has to be much bigger than it is. Do you see what I mean?

MR CARTER: Yes. Well, notwithstanding your comment I can only - - -

MR COSGROVE: That these numbers need to be treated with a little bit of caution.

MR CARTER: Yes. I can only say that this was an independent study to show the economic impact of Penrice. I think there was a more recent study done in South Australia that listed Penrice as the eighth most important company in South Australia and here is a company that actually only has gross revenues of $120-odd million. But the reason for that is, because it's what we call a heavy basic chemical production facility, it employs a large number of contractors and other people downstream of that: engineers, contractors, draughtsmen, the works.

I think it's fair to say that it also contributes to some of the growth industries that we see occurring in Australia, whether it's the food industry of which sodium bicarbonate is an ingredient or whether it's the wine industry of which soda ash is an ingredient. They are recognised as major growth industries in Australia. The car industry for instance uses soda ash through the plate glass for the windscreens. So you would see all that coming from imported product if we were not here in Australia.

I think the important issue here is, specifically in relation to the report, that the Productivity Commission's modelling underestimates the employment adjustment in the cost in relation to Penrice, and I can only say that in relation to our case. Penrice's employment of the 240 people has an average salary of $60,000 per annum. There is a high number of professional people in our organisation, as a major engineering chemical company. In addition the services provided to support this, as I've already mentioned, are well above the $29,000 rate that has been used in the report - and, whilst we don't know what that exact figure is, we can certainly say it's not $29,000.

MR COSGROVE: It's average earnings across the economy, yes.

MR CARTER: Yes.

MR COSGROVE: No, I take your point.

MR WOODS: Can I just clarify on that though, that in fact you made a reduction of 20 per cent of your staff in a stable tariff environment?

MR CARTER: Yes.

MR WOODS: Pursuing efficiency.

MR CARTER: Yes, and I think the additional point here is that soda ash and sodium bicarbonate are vital key raw materials, basic raw materials to industry. The majority of these are supplied in bulk, so they're in bulk, pneumatic tankers or bulk ships or bulk trucks, and by having a local manufacturer users have a lower inventory cost that would otherwise have been passed on. I think I make the point here that in fact if those products were imported there would be - I don't believe in the calculations that we've done, which I haven't presented here, but they would show in fact there would be no gain to local manufacturers or local industries because of the passing on of the inventory cost that would occur because you'd need to import that product.

MR COSGROVE: Yes, I was interested in that. It seems to suggest that your company would be viable without a tariff because, as you just said, there would be no advantage to your customers in purchasing from abroad because their inventory costs would exceed the saving they would make from the removal of the tariffs. So why would they buy it from abroad?

MR CARTER: I think the issue there, it's not so much that. It's in fact that we don't add on the inventory component to our customers in doing our pricing.

MR COSGROVE: No, but you're claiming that that is a benefit to them.

MR CARTER: A current benefit, yes.

MR COSGROVE: But at present of course they don't have to bring in large quantities from abroad. They can reduce their own costs independently of what you charge for your product.

MR CARTER: Yes, or they have a current price regime. Let me say that: not reduce costs further but have a current price regime.

MR COSGROVE: That's right, yes. So if the tariff were removed they would be able to acquire the product abroad, presumably somewhat less expensively, but they might have to spend more to have higher quantities on their site. See what I mean?

MR CARTER: Well, it's based on your premise that in fact your modelling would show there's an economic advantage to industry in fact if you don't have tariffs. In this case, because we're talking about a bulk commodity product that needs to have large storage availability, we believe in fact that they wouldn't actually see an advantage by a reduction of tariffs in that.

MR COSGROVE: I'm agreeing with you. We're agreeing violently, I think.

MR CARTER: That's good, I think.

MR COSGROVE: You seem to be saying that they will be no better off because they would face higher inventory costs than they do at present if there was no tariff and they imported. Now, from their own point of view that seems to me to suggest that they would be acting irrationally by importing rather than from your company, because they would be reducing their profits in doing so.

MR CARTER: Yes. I guess the issue there is that we are in fact pretty much at import parity pricing now.

MR COSGROVE: What do you mean by that, an import parity? You've got a 5 per cent tariff - well, I beg your pardon, it's - - -

MR CARTER: Yes, on soda ash there's - 1 per cent for a year or so, yes.

MR COSGROVE: The other one's 2 and a half, yes. So do you mean import parity after taking account of the tariff?

MR CARTER: Yes.

MR WOODS: It just would be helpful to tease out some of the different arguments, because for instance in your submission you talk about - you acknowledge that a reduction in tariffs could occur in Australia but then you'd move on to the reciprocity issue. So if we look at your production and look at the Australian demand, as we've just explored, there's no great advantage to domestic users of your product to purchase the imported product because of the higher internal costs they would then have to face. So to that extent, plus transport costs and the nature of the commodity, you've got some sort of natural hedge anyway. So, picking up your point here, then we could look at the production for the domestic market and say tariffs aren't adding greatly to protection for you from imports.

If we then look at your exports to other markets other than China and the US, our tariffs aren't doing anything - they're totally neutral in that sense - to your exports. So it really brings your argument down to a point of using the trade-off in our tariffs to gain some advantage in reduction in tariffs in major competing markets, competing in the sense of production competition. It's perhaps slightly simplistic but, just working our way through the arguments, is that where we're heading?

MR CARTER: I think that's one point. I think implicit in what you're saying there is - and I think we say this: we are prepared to agree to tariff reduction as long as everyone else has got the tariff reduction. I don't think it's any more simple than that, to be honest. But I think the other important issue that is important here is that the return on investment is so low at the moment on this chemical commodity product that in fact 5 per cent tariff is quite an important component of that. The question then is: what's the economic impact of having this industry in Australia or not? I think that's the only other issue.

MR WOODS: That's helpful. That just clarifies where the key points are.

MR CARTER: Soda ash and sodium bicarbonate are vital key raw materials into a number of growth areas: food, the glass industry, the wine industry, environmental concerns and so on, and I think it is in fact and has been recognised as a strategic individual from a defence viewpoint as well. In fact I understand that Penrice has been for some time on one of the defence industry specific target points. I think it's also clear to see that the government has recognised the importance of tariffs in the protection of the PMF and the TCF industries with special treatment given to them in respect of 15 per cent tariffs which I believe they legislated, and we see no difference that Penrice is an important industry in the Australian economy and therefore we would expect that the government must be consistent in keeping manufacturing jobs in Australia.

I think the other important point that came out of the previous discussion also, which is in our submission, is the issue of micro-economic reform. Whilst there have been certainly some quite clear steps forward, we believe that particularly sea and rail freight within Australia are still areas that have got a long way to go to be competitive, and I was interested in some examples of guitars going across to New Zealand or wherever it was. I can say to you that the two most costly pieces - well, in fact there's three. The three most expensive stretches of water are the Tasman ditch between Australia and New Zealand, the ditch between the north and south islands of New Zealand and the ditch between Australia and Tasmania. It is important, if you're going to go down that deliberalisation of trade, that we have other micro-economic reform in place. It is a key component of what we need to see.

MR WOODS: So in a sense broadbanding of policy so that, you know, where there may be adjustment impacts on one they can be to some extent ameliorated through some positive benefits of others.

MR CARTER: Yes. Let me give you an example. We used to charter a vessel to do our bulk shipments around Australia. Then we would sub-charter that when we didn't need it. That vessel was an Australian flagged vessel. It had - don't quote me on this but the figure was roughly something like 19 crew. It was reflagged to a foreign country, re-crewed with 11, and now runs a successful business in comparison to what it did under the Australian flag.

MR WOODS: Same vessel?

MR CARTER: Same vessel, exactly the same vessel.

MR COSGROVE: Yes, it's a rather sad story.

MR CARTER: So what we're calling for is harmonisation, removal of the anomalies. We certainly would be very critical and disappointed if in fact the finding was to remove tariffs. I think our submission is that in fact yes, they should be reduced but in consistent nature with other countries, along with the other trade issues that we've raised, and I have in our submission given you a number of attachments for the public record in relation to letters to Minchin and to our submission to DISRA in relation to the sodium bicarbonate duty rate.

MR COSGROVE: Could I just ask one further question. It relates to what does appear to be the essence of your argument, which is the harmonisation or reciprocity point. It may be a little clearer in the context of your particular industry, but of course we have to look at much more than the chemicals sector, because you have this CTHA agreement where, I assume, essentially all the major world producers of these products are sitting down and trying to reach agreement on liberalisation of trade barriers in the sector. But even in that context - I mean, it's a multilateral negotiation, which I think is appropriate, but what would happen from your perspective if some members of that group agreed to come down, say, from six and a half to zero by a certain date but others did not? I don't know whether that would mean that there would be effectively no agreement; it may well do.

On the other hand you could, as we've seen in some other trade negotiations around the world, have a certain segment of a particular group of countries agreeing to do something even though the group as a whole did not. Do you know how that might work and, more particularly, how your submission to us would be affected in circumstances where some of your competitors fail to participate in a new round of that CTHA which did bring tariffs down, let's say, to zero? In other words, what does reciprocity and harmonisation mean in practice from your perspective? Do you need all of them to come down or is it okay if some of them come down?

MR CARTER: I guess it is a little bit more fundamental for us. I mean, what you're then arguing is a case of, "Where can we actually put the line in the sand?" I guess our answer would be, "Why have a line in the sand until everyone else does exactly the same? Why do we need to be anywhere near the first?" I don't think we've demonstrated that in fact we've gained significant advantage from being anywhere near the first. From perhaps a more selfish viewpoint as a company, we really want to continue manufacturing in Australia, and I think if not all countries go in all trade areas, not just tariff rates, then I think we're kidding ourselves. A level playing field is a level playing field. We don't have that. It shouldn't be slightly uphill in one direction and then downhill in another direction. It's got to be a level playing field if you're going to go forward.

So I understand where you're coming from and maybe there's some merit in that, but on the surface of it I'd have to say no, I think we should stand on our dig on this. We should have the bargaining power we need and not remove any further tariffs until such time as we're seeing everyone else very clearly committing to both tariff reduction to the same extent to where we currently are and removing non-tariff trade barriers and investment incentives and the like.

MR COSGROVE: Okay.

MR WOODS: But if there is a breakthrough in tariff levels in China, for instance, and therefore some of those circumstances disappear, a reduction in tariff in Australia will still have impact on your domestic business in one sense, but I'm just not judging that it's a significant impact.

MR CARTER: I guess we would then look at it as perhaps a more global structure then as a company and say, "Well, okay, it can be that you're not making as much money in the Australian market, but if in fact your American sister company is able to then export into China and then make some money out of that, in fact maybe from a total company perspective that then makes that okay."

MR WOODS: Maybe in the first couple of years of the flush of success, but I'm just wondering about five or 10 years down the track.

MR CARTER: It may not be so, no.

MR COSGROVE: I guess to some extent the point that lies behind that previous question from Mike was that despite a much larger reduction in tariffs than is now under consideration we've seen continued growth in many, if not all, parts of the manufacturing sector. Unfortunately I don't have a sufficient degree of detail here on your particular sector but a broad group within which it fits, which includes coal and petroleum so it's not terribly illustrative for you, but it has increased its production over the last decade by 18 per cent. The manufacturing sector itself has become much more successful in export markets, and here again I can't talk specifically about your particular chemical products. So we're wondering, in other words, why it is that the sector as a whole at least has continued to grow relatively - well, not relatively strongly but quite strongly, become more successful in export markets when tariffs have come down from levels, I guess, as high as 20 or 30 per cent to 5, and yet the next 5 seems likely to be a potential disaster for some companies.

MR CARTER: No, I understand that. Look, I don't think there's any doubt that the removal of tariffs to where they are now has necessitated a number of industries and companies to become much more world competitive than they ever were, and I think that's - - -

MR COSGROVE: We've had submissions to that effect, yes.

MR CARTER: I think no-one would deny that, and I think it's also fair to say that under the 40 per cent regimes a number of companies were living behind those and making quite large profits and not necessarily investing under those regimes as well. I mean, we are in a chemical commodity market. 5 per cent makes a substantial difference in our case. I can't talk for any other industry.

MR COSGROVE: No, I understand that.

MR CARTER: But in our case this is a basic chemical, no different than caustic soda or other products, and on that basis it does have an impact, a substantial impact.

MR COSGROVE: Well, thank you very much, Mike. You've provided us with a lot of information, not only today but in an earlier stage, and we do appreciate it, thank you.

MR CARTER: Okay, thank you.

MR COSGROVE: Our next participant is Qenos. We'd like each of you before we discuss your submission to identify yourselves for our transcript please, and the capacity in which you're with us today.

MR BELL: Yes, sure. I'm Steve Bell and I'm the general manager of commercial for Qenos.

MS WILKES: I'm Fiona Wilkes and I'm the government relations manager for Qenos.

MR COSGROVE: Thank you. Well, Steve and Fiona, we're glad to hear from you.

MR BELL: I didn't hear all the previous submission, but everything I heard I guess we just want to add to. We would support - and I don't think we're going to make too many arguments beyond it - the previous submission. We've read the draft report, which we had an input into last time. I guess there's a few comments we'd make alongside of that in opening. Firstly, if we could just articulate our starting position or base position, that is, we don't have any problem with competition from imports in an open free market. However, we do feel that we should be able to compete on a level playing field and not have to compete against unfair or unbalanced competition. So I guess our base position is that we have no issue at all with the concept of moving to further reduction in tariffs and competing in an open market but we feel that it's essential that we have to compete in a fair market that is balanced. I don't think that we ought to be in Australia rushing to fall over ourselves in the race to be the first to dismantle the tariff regime that is left there.

MR COSGROVE: Well, we wouldn't be the first, but go ahead.

MR BELL: No, but we seem to be in a fairly headlong rush and as such want to be right at the front of the pack. We're a fairly small country in economy overall, only 20 million people, and I'm not quite sure, given we already have a base tariff regime which is less than most of our trading partners and inside a lot of the agreements at this time anyway, why we feel a need to accelerate that position ahead of the game. We would see a lot of downside in that. Qenos would support moving to lower tariffs but in line with our trading partners, that is, a level playing field or a more balanced position.

We've gone through a lot of self-help as an industry in recent times. We've consolidated, as we've articulated in detail previously, from a number of local suppliers on the base of a relatively small industry structure that was built in the 1960s. We're now down to one local manufacturer and we need time to consolidate that rationalisation and self-help program. We've done a lot of self-help as an industry. We don't, despite what might be believed at times, continually have our hands up for help from the government, but we need some time to basically get that consolidated and in place, and we've got a lot of investment planned to do that. That's significant capital investments about further growing the business to get us to a scale that makes us more competitive on a world basis but also about improving our efficiencies and productivities so that we, overall in the long term, have got a far more competitive industry.

We as an industry, like the soda ash industry and a number of others in the petrochemical industry in Australia, have been exposed to international competition for a long time now and it's nothing new to us. We feel that the consumer benefits quoted in the draft report are questionable and are based perhaps on questionable assumptions, and in any case, given that the benefit that is acknowledged in the report is acknowledged to be small, with some considerable debate, I think, about what the actual costs are and some of the actual penalty in putting it in place, why rush to remove the tariffs, given that question and debate, particularly in view of the fact that we're already below our main competition in the region and most of our competition does come from the Asia-Pacific region? Typically that competition builds petrochemical facilities. They put tariff walls up in the order of in some cases 30 and 40 per cent to protect that, notwithstanding tax benefits and other things and tax holidays etcetera that get put in place.

The other point we'd make is that we feel there's significant indirect benefit to the Australian economy and the community overall from having a locally-based petrochemical industry in the type of industry that we've got here. It's a very capital intensive industry and to get the return on that capital at times, given you're in a very cyclical marketplace, is quite demanding. It generates significant employment. Our operation combined between Melbourne and Sydney employs directly over 1200 people and we have several hundred people who are in full-time employment as permanent contractors and support infrastructure based on that business. We make a significant contribution to the balance of trade directly, depending on where you are in the cycle, in the order of a billion dollars in sales, which would be all imported if we disappeared tomorrow and, indirectly, downstream, a further significant contribution. We're also based on indigenous feed stock out of both Bass Strait and the Cooper Basin, and so there's significant value add goes into our base gas feed stock, indigenous feed stock that would be lost if we didn't exist.

To put some sort of context around that, the ethane we convert as feed stock to ethylene and then into polyethylene, for every tonne of ethane one extracts there's roughly two tonnes of natural gas that comes out of that extraction process that goes into the consumer gas market. We also, I believe, add significant and strategic value to the economy in that the support and infrastructure to maintain, to upkeep and to upgrade and develop the petrochemical industry involves a considerable skill base being in place in engineering, in electronics and in infrastructure support, which is of significant strategic value to the economy and makes a contribution in other areas such as defence and other industries, the automotive industry etcetera. By taking away these industries you I think debase considerably some fairly significant and strategic infrastructure that's of benefit to the country, and in total we would believe downstream as well we provide a significant base.

Our customer base enjoys world competitive pricing. We're not Australian priced, we're internationally priced, and our customer base would prefer to buy off competitive local producers as opposed to purchasing off importers. Particularly in times of tight supply this industry is driven by a supply demand balance, and when material and the industry are in periods of very tight supply then the prices do go considerably higher and supply is difficult. If this industry was to disappear I think the Australian economy would suffer in those times of tight supply as well, particularly our world focused exporting, downstream converters, who rely on that to get them back out into the market competitively, of which most of our customers are these days.

I guess, just in picking up a couple of comments from the previous discussion, I would support the comments around some of the issues of micro-economic reform. We export to New Zealand. We can get product into Hong Kong far cheaper than we can get it into New Zealand and we also export to South Africa, and we can ship stuff out of Botany around the coast to South Africa a lot cheaper than we can get it to Perth, and you have got to go past Perth to get to South Africa. So tackling tariffs on their own without addressing some of the other issues, forget the level playing field issues is, I think, not really tackling overall the hard issues.

Just one last comment, sorry. You made the comment that 18 per cent growth over a 10-year period was quite significant. I would argue in the industry we're in, the manufacturing industry, that 18 per cent over a 10-year period is a pretty poor return, and if you looked at the stock market and the sort of returns that our shareholders demand, if that was the best we could do, I don't think we have got a long-time future in any case. So again I would, I guess, challenge a little bit that that sort of growth is an acceptable level of growth given the capital that we sink into this industry.

MR COSGROVE: Thanks, Steve. Could I ask a little about this scenario in which, as you said, we might disappear tomorrow. How is it that a 5 per cent tariff on your output assists you to develop what you said I think was the need for more economies of scale in production and a generally higher level of productivity? What does the tariff have to do with those?

MR BELL: I hope that wasn't what I said. I wasn't contending that that assists at all. We would contend, or our position is, that we need time to consolidate and by taking the tariff away - and antidumping is also important in the context of this tariff debate as well - it makes it more difficult for us to generate the case for investment cases in the short term; that we have got to consolidate and get the business on a solid footing; and that, by removing those tariffs too quickly and out of line with our trading partners, it makes it more difficult for us to justify investment and to justify putting the capital in to do the sorts of things we want to do.

MR COSGROVE: So you're saying either that the tariff adds to your own internal generation of funds for investment or that it assists you in approaching capital markets for external funds. Is that the essence of the role of the tariff here?

MR BELL: I think in the short term if you were to immediately take away the 5 per cent tariff, that would have an immediate bottom line impact on the business and it just further undermines the return on capital, the base business, and consequently, I guess, the stomach of the shareholders to continue to invest in a business that already is being continually challenged.

MR COSGROVE: Would there, do you think, be any benefits to your company on the input side, some of your own costs, as a result of a reduction in tariffs generally, which is what we're looking at? I don't know whether you import or whether you purchase items which possibly compete with imports and would go down in price.

MR BELL: There are two answers to that question. I guess I didn't in the opening refer to what we would call the 3 per cent nuisance tariff. We have consistently stated all along that we support the immediate removal of that where it's not applied to goods that can't be sourced or equivalents thereof sourced locally. So in that sense there would be some small benefit, but we convert indigenous feed stock into end product and there's very little input that goes in that has the tariff applying to it in any case. So I believe - - -

MR COSGROVE: What about your capital equipment? It struck us during this inquiry that the present 5 per cent tariffs applied to a lot of capital goods more so than items for consumer demand. There might be some indirect effects of that kind on your costs that would help to alleviate the impact of the removal of the tariff on your output. Are you aware of - - -

MR BELL: As much as they might exist, I'm not sure what the tariff regime is on capital equipment. Certainly we have automobiles in our car fleet which enjoy far higher tariffs, and we would enjoy the benefits of those coming down, I guess.

MR COSGROVE: No chance there for a while, yes.

MR BELL: I guess we buy safety footwear and that also enjoys a considerably higher tariff than we're talking about here.

MR COSGROVE: Yes.

MR WOODS: You have referred to timing as being significant. I'm just trying to weigh up the prioritisation of your argument. There's one line of argument that says that you should use our current tariffs as a bargaining chip to get better access into other markets but if that was successful then you would see our tariffs reduce or come down to zero. That would have some effect, as you're currently saying, on your own revenues because price would come down in Australia, but you're prepared to trade that off in the interests of getting into the export markets, it seems.

But, separately, you have demonstrated in some detail the rationalisation that has been going through your industry and you have made several arguments in your submission for a period of time for consolidation, presumably therefore to reap further efficiencies so that you can withstand the impact of reduction in tariffs, which therefore in the interests of the Australian economy might be worthwhile achieving once whatever time frame is relevant in your circumstance, irrespective of where we have got to on trade reciprocity. I'm just having trouble trying to work out which are your priorities, because whichever it is then has an impact on your other argument.

MR BELL: Firstly I would say that I'm not sure the benefit if you removed them tomorrow would be the equivalent of a full 5 per cent in any case, but our position is we should work in line with our trading partners, and this is what the WTO agreements, the chemical harmonisation agreements etcetera, are all about. I guess the counter argument is: why do the Thais and the Malaysians need a 30, 40 per cent tariff war to put up around their industry, looking at it the other way? We tried to export to those countries and can't get over those hurdles readily.

MR WOODS: But, even though that could then lead to our tariffs coming down to zero, it was part of a negotiated arrangement and you're therefore comfortable with that consequence for your own domestic existence.

MR BELL: The track record, I think, speaks for itself. We not long ago as an industry were also behind a fairly significant tariff war.

MR WOODS: Absolutely.

MR BELL: And in a fairly rapid space of time we have demonstrated an ability - and at the time when they were being dismantled, there was a lot of angst in the industry - to really move and attack fairly rapidly with those changes and keep ourselves viable, but that took time.

MR WOODS: I guess to some extent we have listened to that angst progressively as the tariffs have been reduced. I'm just wondering why the angst is still there for the last 5 per cent.

MR BELL: Because it takes time to basically adjust yourself, ie, making those adjustments from 30 per cent down to 5 took time. It didn't happen overnight.

MR WOODS: That's true.

MR BELL: If you had a situation where that was wiped away instantly, I think you would have wiped away a lot of industry that's still here today.

MR WOODS: In which case, exploring timing. I mean, there has been move in tariffs since 96, so we have had a four year period already. Just what further period of timing do you envisage?

MR BELL: We would be comfortable with the timing sort of being put in place with some of the agreements. I guess I would also argue there has been a moving in tariffs since 96. The government introduced a 3 per cent nuisance tariff to gather revenue so - - -

MR WOODS: I take your point on that one.

MR BELL: - - - you know, it went the other way when it suited.

MR WOODS: Yes, I fully agree on that one.

MR COSGROVE: As you have said, Steve, you use those tariff concession business inputs. You have to pay 3 per cent on them now. Are you able to tell us much about the costs that you face in using that concession facility, the sort of - - -

MR BELL: I don't have the details at my fingertips. It would not be what I would call a significant number relative to our overall cost structure. But, I mean, we could get that detail but I don't have that at my fingertips.

MR COSGROVE: I don't know whether you follow them, and I certainly don't, but I just happen to have picked up recently some documents produced by a group called, I think, ACTED Consultants, who appear to produce assessments of the chemicals industry at least. I don't know when this one was prepared - it's on a Web site - but it amongst other things pointed out, focusing essentially on the Altona petrochemical complex, that most of the plants are below one-third world scale so they're incurring scale-related operating costs penalties with prices above world levels through tariffs and antidumping and so on. Then it went on to say:

> Ironically tariffs have slowed the internationalisation of the Altona complex and, given the reserves of available gas, it's almost an opportunity lost to Victoria. Early elimination of tariffs would have promoted industry rationalisation and the growth of polyethylene -

I'm not sure I have got the pronunciation correct -

> production at the Altona complex.

I have to hasten to add that I have never met ACTED Consultants so I don't know the quality of their analysis, but is that - - -

MS WILKES: I've certainly seen that report. My understanding is that it was prepared independently of any of the industry players. My reading of that report is its criticism is mainly directed towards the actions of the distant past, if you like, at the time at which the industry was established, and the fact that the 30 and 40 per cent walls that existed at that time promoted competition; the fact that some of the state-by-state disagreements meant that competition within Australia was seen as beneficial and hence there was impetus there to create an industry that had both Altona and Botany, almost duplicate operations, on what was world scale at the time.

MR COSGROVE: Yes.

MS WILKES: But the existence of those duplicates as time went by meant that the progression to world scale in the longer term really struggled to take place. The fact that you had two businesses making independent decisions and independently growing by acceptable steps for those individual businesses made it very difficult to get to world scale. Qenos now is the amalgam, the end outcome 35 years later, of some of those poor decisions in the past. I don't think there is any substantive argument in there that says that that can be fixed in the near term by a further reduction of tariffs. It more points to the fact that, having created a situation that built distant plants, you have then got a fairly difficult case to build up to world scale.

MR COSGROVE: Getting back, Fiona, to a question I put earlier, you still have both operations, I think, don't you, Altona and Botany?

MS WILKES: They exist but not in the form that they were built 30 years ago. A number of units have shut down as they have ceased to become relevant and there has been consolidation in some cases to one state or the other.

MR COSGROVE: This is something in the nature of a hypothetical question, but would you say it's the case that the tariff has allowed you to in a sense avoid consolidation perhaps into a single plant where you would get closer to world scale efficiencies of operation?

MR BELL: At what point in time?

MR COSGROVE: I don't know that that's material here. I mean, I'm just contemplating a situation in which you have a remaining, admittedly small, degree of tariff assistance - it's been higher, of course - and that may be, in a small way at least, impeding you from further rationalisation of two facilities into one with consequent - - -

MR BELL: I would contend very strongly that's not the case. If you look at where the world scale operations are in petrochemicals, these days the Middle East, Saudi Arabia, has a tariff regime, I think 8 per cent. Korea is our largest competitor right now and our biggest problem with dumping, and I'll talk about dumping, given you raise that in that report, in a minute. Korea has an 8 per cent tariff regime and they have larger scale operations. You go into North America, into the Canadian gas field region, and again they're building on those scales. I don't think the evidence of where the world scale operations are would support the tariff regime that they've got operation.

MR COSGROVE: Why haven't we got world scale with our tariff?

MR BELL: Because this industry was built by and large in the 1960s to a 1960s scale in an Australian market that's not a world scale market.

MR COSGROVE: It's a long time ago, 1960 - 40 years.

MR BELL: It's not that far back. But the industry hasn't just built in 1960, in all seriousness, and stayed where it was. That's the point Fiona was making. We have consolidated, we have rationalised, we have shut down poorer operating plants and we have de-bottlenecked, incremented, built. At our Botany operation in 1992 we commissioned a $100 million Unipol low pressure polyethylene reactor. That was state-of-the-art at that time technology and scale plant. So I don't think it's fair to say the industry hasn't done a lot of things to help itself along the way, and as the tariffs have come down it has continued to do that.

Could I just come back to that report, because what you were describing sounded like a vestige from the past to some degree. I guess we would take issue with the comment about prices being above world level due to tariffs and antidumping legislation, I think it was, or regimes. Whatever tariff level we go to, without an effective dumping regime I think we've got a problem in any case. I mean, dumping is about or can be about predatory pricing and commercial behaviour where, if you've got a large scale facility in a market that's a relatively small market, you only need a small increment of your production that you can marginally price and send into that market and you can cause a lot of damage in that market. I don't accept at all the premise that dumping leads to world competitive pricing; in fact, quite the contrary. In fact, in recent times there's clear evidence that a number of countries are using dumping legislation a lot more actively than they have been before that.

I quote some numbers from an antidumping task force that are statistics that have been recently published. Globally in 1998 there were 232 antidumping investigations initiated worldwide. With comparable figures going back to 1995, the number was 156; in 1996 it was 221; in 1997 it was 242; in 1998 it was 232; and, interestingly, in 1999 the number jumped significantly to some 328 instances. If you do a comparison of the countries and regions that are active in this area, you find that the European Community, which had not been so active previously, is now at the top of the list in 1999. You've even got countries like India. The USA is number 3. Argentina, Canada, South Africa, Brazil and Mexico are all in that top 10, and in our view an affective antidumping regime is absolutely critical as well, whatever your tariff regime is.

MR COSGROVE: Is that something you've made use of in recent times?

MR BELL: Yes, we have a case running at the moment and we're in the process at the moment of pre paring for submission further cases that we'll be submitting. We've suffered enormous damage over the last two or three years due to dumping activities, particularly out of the Asian region when the Asian financial collapse occurred and the large scale producers in the region, with their tariff regimes, had to find a home for that material and found our meagre 5 per cent a pretty easy wall to jump with an attractive market behind it.

MR COSGROVE: Related to this issue of harmonisation and reciprocity that Mike was exploring with you a moment ago, in the first round of hearings you told us - and I may not have the words completely accurate here, but the general gist of it at least was that you felt you were competitive against imports despite the relatively small size of your plants and that you were able to find markets for output when you needed to. Is that still your view and, if so, what does that mean in practical terms for the concerns that you've expressed to us, as have others, about high tariffs in some overseas markets?

MR BELL: We currently export in the order to 10 to 12 per cent of polyethylene production. Most of that goes into the Asia-Pacific region but we are exporting as far afield as Israel, the Middle East, and also Europe and South Africa, South America. Our strategy is to grow our domestic business as the domestic market grows, and we're enjoying growth of in the order to 5 to 6 per cent per annum, or polyethylene is in the market. We're growing our plant capacity accordingly, or we will if we can make the investment cases stand up in an uncertain environment around tariffs and what have you. We will always export a proportion of our production by virtue of the type of operation we run, but over time that proportion will decrease.

MR COSGROVE: Decrease?

MR BELL: Yes.

MR COSGROVE: Essentially because you see your opportunities as constrained by foreign trade barriers or for other reasons?

MR BELL: Because we really see that our core focus is the Australian market and we're focused on servicing that market. We enjoy quite a high market share position in the market and you refer to our relatively small scale of operations, and that's true. That's one of the disadvantages that we carry in terms of actual absolute productivity and conversion costs relative to a large scale producer that might be operating in the Middle East or in the region, say Malaysia, that's sitting on top of a gas field that they can convert relatively cheaply.

I guess the counter side is that if you're going to enjoy a high market share in a market of this size, that's geographically roughly the same size as the continental USA but with your main market on the eastern seaboard, then you've got to be in a position where you can be all things to all people. That basically means that you're able to not only supply the larger volume, more attractive sectors of the market but also the ability to supply what we would call the rats and mice, the smaller volume applications. By virtue of having smaller scale production facilities, it gives us far greater flexibility and nimbleness in terms of ability to twist and turn on the head of a screw at times to actually supply and service those smaller niches in the market.

In fact, one could make I think quite a compelling argument that if we were to disappear tomorrow those areas of the market would suffer considerably, both from the point of view of the cost of the geography - that an importer would take quite a different view - and also just by virtue of the fact that a lot of importers wouldn't even be able to service them, because they typically on these large-scale plants, where we might make 20 or 30 grades on a plant, might make half a dozen grades of product. They run long campaigns that run over several weeks. In the US they dump the stuff into a rail car and they put the rail car straight up the railhead and into the customer's operation. It's a very different infrastructure.

MR COSGROVE: So what happens to the rats and mice in the USA?

MR BELL: It's a large area. You're talking 250 million people. It's a fair larger market and so why they've got bigger rats and bigger mice than we've got is the issue.

MR COSGROVE: I'm sure there are some smaller ones.

MR BELL: The US is an interesting case in point. That market, as well as having its sort of structural regime in terms of some logistics and infrastructure, makes it quite a difficult market for an importer to penetrate. Currently, just by way of comparison, regional pricing for polyethylene in this part of the world, say for high density polyethylene, is in the order of $US700 a tonne, and that's in the south-east Asia, Asia-Pacific region. That would be the price in our market here as well as in the regional market, whether you go to China, Hong Kong, Taiwan, Korea or whatever, adding on their 30 per cent tariff, of course.

If you go to the US market, the polyethylene price is right today in the US market, because the economy has been going so well over a sustained period of time and by virtue of the structure of the market, and sells at in the order of $US1100 to $US1200 a tonne, so almost in some cases getting up around twice the price of product in this region here.

MR WOODS: Great export opportunity for you.

MR BELL: It costs a fair bit to get it up there because the freight ain't so cheap, and then you've got to jump across the infrastructure. You can't export in a railcar, for example. It's a very different market, and I guess the point I'm trying to make is that not all markets are the same and there are all sorts of barriers - tariffs are only one barrier - that one has to contend with, like greenhouse gases.

MR WOODS: But the same applies in reverse in that sense, that you have a natural protection in your domestic market.

MR BELL: By virtue of that market's structure and smaller - absolutely, and we try and work that, yes. I'm not sure that's one that we would be looking to dismantle, and I don't think that's one you can help with either.

MR COSGROVE: Would you say that your long-term investment plans for expansion are hampered by trade barriers abroad?

MR BELL: By and large I'd say not, because we're focused on growing our domestic position and we're doing a lot of our work around making our operation more cost competitive - lower unit cost per tonne, so either getting more tonnes out or getting more cost out. So where that impacts your incremental tonne that goes into export I guess it has that benefit, but it's not the primary focus.

MR WOODS: I'm just wondering therefore the weighting that you give to the reciprocity argument. How important is that really for your industry strategy?

MR BELL: In terms of getting everyone onto the same basis I think it's very important. I've seen the argument in the report that the view that you need a negotiating chip or that we shouldn't be giving these things away, that we should be using them in a negotiating chip in negotiations in global agreements, which we would support, but that's not really a real argument. My experience in a negotiation is that typically the more cards you hold in a negotiation, the better the position you've got. I've never known a negotiation where I've gone in with nothing that I've got the best position out of it.

MR WOODS: For your company in particular, you're not actually actively seeking to expand your export component?

MR BELL: That's not entirely true. There are some aspects of the business where - - -

MR WOODS: Sorry, it was an impression I gained from - - -

MR BELL: The focus is on growing our domestic position , but we'll have some export position - - -

MR WOODS: Some export exposure, yes, I understand.

MR BELL: And in our downstream value added businesses, the compounding businesses, a big part of their strategy is about growing export. But that's not the large volume, high capital intensive end of the business.

MR COSGROVE: We don't have any further questions for you, Stephen and Fiona. Thank you for coming along. We're going to take a break for lunch now and we'll resume at 2 pm.

(Luncheon adjournment)

MR COSGROVE: We are continuing the hearings now and the participant with us is the National Association of Forest Products Industries Communities. As you did at our earlier inquiry - no, you didn't appear in the first stage, did you? But anyway, we would like you each to identify yourselves and indicate the capacity in which you're giving evidence to us today please for the purposes of our transcript.

MR SPINKS: My name is Peter Spinks. I'm the national president of NAFPIC and on my right is national secretary, Mr Chris Moody, and on my left is Leanne Martin from NAFPIC.

MR COSGROVE: Right, thank you. We're happy to hear you, thanks.

MR SPINKS: Thank you very much. It's not my intention to read word for word - - -

MR COSGROVE: We have read them, I can assure you, thanks.

MR SPINKS: All right. I suppose our main fears are the loss of jobs in our regions where the paper mills are. That's our prime concern, and also the loss of our industry. Leanne has done the research and has written the submission on our behalf, and certainly any questions that you want to ask the three of us are all happy to answer. But, as I say, Leanne is the one that is versed in the research etcetera.

MR COSGROVE: Right. Sorry, would you like to - - -

MR MOODY: I was just going to say, we should point out that one of our main concerns has been, as Peter said, in those regions there is high unemployment. I know it's 12 per cent in Gippsland, where I come from; high unemployment in Tasmania, where Peter comes from; and high unemployment in the area where the other mill is in New South Wales. We don't believe that the draft report addresses those issues and we obviously have great concern for those communities.

MR SPINKS: Just following on from that, I think, certainly our members, as I have said in the submission, do take umbrage at the commission's suggestion that we would have no problem, we could go on social security etcetera. That's not our plan. We would much rather be working in the industry.

MR COSGROVE: We entirely accept that, and I'm sorry if any looseness in our drafting, which we will of course look at again before we finalise the report, has troubled you in that way. Our intention was simply to indicate that for temporary periods at least there is some support provided to people who find themselves in difficult circumstances. We certainly don't see it as a long run solution for anybody.

MS MARTIN: Unfortunately though in the case of Gippsland it becomes a long-term issue, as we found with electricity industry. The people that lost their jobs there, nine years later are still unemployed. Half the adults in the Latrobe Valley are still unemployed, so it's not a short-term measure in regional areas.

MR COSGROVE: Do you know how many were unemployed before that closure of the power stations occurred?

MS MARTIN: No, I don't know the figure.

MR MOODY: It wouldn't be too hard to find out what the unemployment figures were in the region at that time.

MR COSGROVE: I'm sure we could, but it was the reference to half the total adults. I imagine that some proportion of the adult population would not have been working and some might not want to work for various reasons, but I don't wish to belittle the problem in saying that. I'm sure it is a serious one. Is there anything else that you wanted to say before we ask a question?

MR MOODY: I probably just wanted to point out too that in the pulp and paper industry tariffs don't have to be at 5 per cent. From my understanding they could be, or should be, at 12 per cent. Due to whatever circumstances they're down to 5. We believe they should stay.

MR COSGROVE: Okay. Leanne, did you want to add anything at this stage?

MS MARTIN: No, that's fine.

MR COSGROVE: We do want to thank you for your latest submission and for the other material that you provided to us during the course of the inquiry. I guess our main question to you is whether we should assume that reduction of this tariff level would result in the paper mill's closure. Now, we have looked at an annual report, I think it is - no, no, I beg your pardon, it was a prospectus for an equity change, I think, involving Amcor, quite a recent document, I have forgotten the precise date but sometime maybe late last year. In the process of that restructuring a new company named PaperlinX, which I guess you people are well aware of, has been created, and this particular document indicated a relatively optimistic view of this PaperlinX, which is essentially the company producing fine copy paper - a relatively optimistic view of its prospects. For example, I'm just quoting here from some parts of it:

> PaperlinX is extremely -

well, that's their word, not mine -

> well positioned to capitalise on developments in Australian paper markets. Increased concentration of ownership and the scale of operations have lowered costs and produced significant opportunities to participate in consolidation of specific product segments in international markets.

They have been able to increase their profits and their return on investment at least over the period a couple of years up to the middle of 99 despite periods of low paper prices and strong competition from Asia, and they have put in quite a bit of additional production capacity in 1998 to meet fast growth in demand for office papers.

> PaperlinX apparently feels it maintains a cost advantage over international producers in transport and distribution and it expects to see a continued improvement in its trading margin.

So you don't get the impression from that document that they're about to really hit the wall.

MR MOODY: Well, I guess we can't answer for PaperlinX because we're not PaperlinX.

MR COSGROVE: No, I understand.

MR MOODY: But I guess what we can tell you is what we see in our mills. What we see in our mills, particularly in Tasmania and New South Wales, is that there has been no investment in new equipment over recent years. There has been some new investment at Maryvale, the major mill, but certainly in New South Wales and Tasmania there has been no major investment, and of course in industries like this, if you don't continue to invest, then eventually they'll erode. As workers in the industry, what we have always encouraged these companies to do is invest in our industries and create jobs, and taking away the last tariff does not encourage these companies to invest.

MR COSGROVE: Yes.

MR WOODS: But the lack of investment in recent years other than Maryvale during a reasonably stable tariff period - I'm just wondering if the behaviour of the companies is in response to broader market forces rather than to the tariff issue specifically.

MR MOODY: There have been other issues such as resource issues. Those issues have been largely put to bed now with regional forest agreements, and the other issue of course has been heavy dumping on the Australian market of paper products. You'll note that Australian Paper had run quite a number of paper cases. None of those things are encouragement for investment. We don't believe taking away the tariff is encouragement for an investment.

MR SPINKS: I think the other thing is too that Amcor as the parent company at the time is not a white paper company, whereas PaperlinX is. So I believe - not all the comments but certainly my understanding of them would be that, now that they're going to be on their own, that would encourage a little bit more expansion in that field.

MR WOODS: It's certainly the impression we get there; that they're not operating in such a fine margin that the tariff is the sort of final straw that would cause them to fall. I mean, we're not creating them, these are the words - that the company is very positive.

MS MARTIN: I don't think they would put that sort of information in a prospectus anyway. It's not the intent.

MR WOODS: Presumably they have to speak honestly in their prospectus.

MR COSGROVE: They could be prosecuted for provision of misleading information in a prospectus. They have to be rather careful.

MR MOODY: But it's all those things together, I think, that doesn't help. You know, when you've got dumping occurring, when you've got resources issues that you need to deal with, when you've got tariffs being taken away, it's all those things mixed into a basket. If you're considering investing millions of dollars over a large number of years then you have got to consider all of those issues, and it may not be any one of those issues that will decide it. But I think we should be doing things to encourage these companies to invest and create jobs and not discourage them.

MS MARTIN: I'm not suggesting for one minute that the company would be dishonest, but they don't put everything in the prospectus. They don't cover those issues. It's not the place of the prospectus to do so, and I think the prospectus is written on the premise that they do have a 5 per cent tariff.

MR COSGROVE: Yes. I was going to say, I think to be fair, if I remember rightly I was told that, in the section of assessment of risks faced by the company, the tariff issue was mentioned, so it's one element at least. Is part of the difficulty for people such as yourselves in these communities the fact that the companies have moved towards more capital intensive types of production requiring fewer workers per tonne of paper, for example? Can you perceive that happening already?

MR MOODY: This is probably an issue that we have been through, and we took the view that the workforce needed to become more productive and we had to accept a reduction in numbers, but the payback for that would be further investment in the industry, so eventually we get some of those jobs back through further investment. That probably hasn't happened as much as we anticipated.

MR COSGROVE: Yes.

MR SPINKS: I think the other thing is too, certainly in the Tasmanian mills, they have cut back on a lot of production because Wesley Vale is the only producer of coated paper in Australia. Burnie feeds Wesley Vale with a base paper to do that but they've also got the ability to go out of particular grades of paper and make them on other machines. So if push comes to shove, everything that is made at Wesley Vale could be moved to Maryvale. Everything that's made at Shoalhaven could be made at Maryvale and we can just - as a response.

MR COSGROVE: And there might be other reasons why they wanted to do that as well, to get economies of scale for example, reduce their unit costs, presumably their profitability, but at a cost in terms of foregone opportunities in the other locations. You were good enough to respond earlier to our request for some information on property values and I'd like to thank you for the trouble you took to do that. I've had a careful look at them. It appears that if you take the running average of the median price in the three centres, all of which are in North-Western Tasmania, the house prices would seem to have peaked somewhere around about late 95 through to about mid-96 and they have fallen since then but remain slightly above where they were at the beginning of this time period which is roughly 91-92. What was it, do you think, that led to that - well, first of all to the peak itself and then to the decline? Now, did that have something to do with the closure of the pulp mill, for example?

MR SPINKS: The closure of the pulp mill was in 98.

MR COSGROVE: Okay, 98. It's a bit later, yes. Are you aware of any reasons why prices started to fall from about the middle of 96? I'm just trying to get an understanding of what's going on in the community or the region as a whole.

MR SPINKS: Yes. Well, certainly at that time there wasn't the regional feel about North-West Tasmania. If you had an industry like the paper industry in your area you more than likely wanted to protect it whereas we had one mill in Burnie, one mill in Wesley Vale, and they come under the same region but they're two different cities. So there could be that aspect of it because we were mounting a lot of dumping - fighting a lot dumping cases at that particular time.

MR COSGROVE: Were they successful by the way, Peter, do you know?

MR SPINKS: We've had some success. But compared to, say, a country like America that has had about the same sort of amount of cases, dumping cases, we win about 29 per cent of them; America is about 67 per cent. So you could say we're a tad behind.

MR WOODS: And that's an ongoing sort of level of activity on anti-dumping at the moment as well?

MR SPINKS: Yes, we have.

MR MOODY: There's a major case that PaperlinX are running against Indonesia, which the statement of essential facts is due on 4 July. We await that with interest.

MR WOODS: You refer in your submission that your organisation is not opposed to the intent of nuisance tariff inquiry, provided importers cannot slip through the next by substituting grades. Is that a fairly common practice or is it just something that you need to be vigilant against?

MS MARTIN: It is something we need to be vigilant against and apparently from what I've heard it has happened in the past. It is a concern.

MR WOODS: You make reference there to administrative costs and offer the comment of us seeking input from industry. I can assure you we have been pursuing that particular issue wherever possible, although it's proving difficult in some instances to get hard data. But we are accumulating what best we can in that area.

MR COSGROVE: Just reverting to the sort of most pessimistic outlook, in which case the existing domestic producers disappeared, you've mentioned in your submission that consumers might obtain a lower price from overseas products in the beginning. "But there is no guarantee" - I'm reading now - "that if the domestic competitor is pushed out of the market the overseas producer will not raise the price." Why do you think that would be the case? I would have thought there are several foreign producers who would be competing for sales in our market, in the event that we had no domestic producer, just as they compete globally for market share. Why do you think there would be no competition of that kind?

MS MARTIN: Because dumping shows that they have low prices. To try and gain that market share, to drive the price down, try and drive the competition out - and once that competition isn't there, why wouldn't they put their prices up? They have every opportunity to do so, once they've driven the competitors out.

MR COSGROVE: Yes. But let's say country A is the dumper, for the sake of argument, and it successfully obliterates Australian production and then attempts to raise its price in the Australian market, you know, let's say back to the level which it had been prior to the dumping. Why wouldn't country B, another foreign producing country, that is, see purpose in coming into our market at that higher price again and saying, "I can win some market share from country A by cutting my price to Australia by 1, 2 per cent"? Wouldn't that be the case?

MS MARTIN: It could be, depending on where they're geographically located. It could be a lot easier for country A to have that lower price and get a profit from it than it would be for country B, because they don't have the transport cost. Their cost that they can sell is less.

MR MOODY: Country A for instance might be Asia and country B, for example, might be Brazil. So obviously country A is a lot closer.

MR COSGROVE: Sure, the transport costs are larger, yes.

MR MOODY: It could have a lot bigger production.

MR COSGROVE: Yes.

MR MOODY: I understand they have 500,000-ton paper machines.

MR COSGROVE: But is there only one Asian country supplying this product? I would have thought probably more than one but I don't know.

MS MARTIN: There's a dominant one.

MR SPINKS: There's a dominant one, which is Indonesia.

MR WOODS: You referred in your previous material to us, I think in the public record version as well, to Indonesia as being a dominant supplier in the region. Do you see any change to that or are they well entrenched through their investments to maintain that position?

MS MARTIN: I think that's the case and I think the imports statistics would verify that.

MR SPINKS: And also they have said publicly that they see Australia as their domestic market.

MR COSGROVE: Do you know what their share of our market is?

MS MARTIN: Not off the top of my head, but if you want that information we can provide it.

MR COSGROVE: We can find it, I'm pretty sure. Another point you had in fact in a couple of paragraphs below, you were saying that, quite correctly:

> Tariffs are a source of revenue for government and their removal requires an increase in other taxes or a reduction in government expenditure.

Actually you're quoting us, I see, so it must be right.

MR WOODS: Obviously it's quite correct, yes.

MR COSGROVE: But then you pose the question:

> If this is the case then how does the average consumer benefit?

I think the answer to that is that the consumer benefits potentially in two ways, two main ways at least. One is that the price of the product without the tariff is lower and as the statement says, you've found some other source of taxation to cover for that, for the foregone tariff revenue. But more importantly, the pattern of production changes in such a way because the price signals are different, across industry I mean. You know, the previously tariff assisted industry is now less likely to expand and other industries which previously had been bearing the cost of that tariff are more likely to expand.

So that, in short, produces what we call efficiency gains in the overall pattern of production and it's our of those gains that consumers and users of the products tend to benefit. There's a rather technical presentation of this actually in chapter 3, page 21 of the report, which I must say is not the sort of thing you read as you go to bed. But it tries to explain the sources of the gains on both the production and consumption side.

MS MARTIN: That would be true of some industries, a lot of others.

MR COSGROVE: Well, it's a general principle regardless of the industry. But if you mean that the effect of removing the tariff would differ across industries then yes, that's certainly the case, has to be.

MS MARTIN: It would appear that - a couple of times in the report you talk about taxes, Australian taxes and removing the tax on imports. A simplistic view of that could be that you're going to tax the Australian consumer to make up for it.

MR COSGROVE: Yes.

MS MARTIN: But you're not taxing the importer. They get away with it and we have to pay it.

MR COSGROVE: Not taxing the importer. Well, the turns on the question of where the incidence - in a tariff-free world the sales tax or, as from Saturday, the GST falls. It will certainly be the case that imports like domestically produced products will be subject to the GST. Now, there's a whole series of stages along the chain with refunds paid as you get towards the consumer end. So if you're talking about the choice facing the consumer of an imported product which competes with a domestically produced product, then I think it's neutral. Both of those products will be subject to the GST and the import, if it's a consumption good, will be subject to a 10 per cent GST just as a domestically produced consumption good like a packet of toothpaste will be subject to that, except that in the case - well, no, that's still the case.

If you're talking about capital goods or inputs to production then, because of the refund process through the taxation chain, there will be probably a lower rate of tax along those earlier stages of the production chain. The other complication here, and I don't want to make it too complicated, is the removal of the existing wholesale tax of course will mean that the impact of the introduction to the GST on some of these items is effectively less than 10 per cent, as you've probably seen explained. But I think generally speaking there's no differentiation in the taxation of imported versus locally produced products. Now, it's true that any lost revenue, tariff revenue, has to be replaced unless you're prepared to allow the budgetary position to deteriorate. But that doesn't negate the point, which we've tried to explain in that diagram in chapter 3, that there are still these so-called efficiency triangles which are not reduced by the fact that the composition of taxation has to change - it's technical. Anything else, Mark?

MR WOODS: No. I mean, it was a fairly comprehensive response. You sort of picked up many of our key points and offered commentary on them and, as I say, we've had the chance to go through those in some detail. You've reinforced the points relating to unemployment in the regions and therefore the already high base problems being faced in those regions.

MR MOODY: I think too that, you know, we should emphasise the point that we made in that submission, that to lose one more job in those regions because of tariffs is a reason why they should remain. To our communities that's important.

MR COSGROVE: I understand your concern, yes.

MR WOODS: To reinforce John's point as well, we'll be going back and looking at our drafting in relation to the reference to the social security safety net. It was not intended in any way that you may have picked up in your response to us, so we'll make that clear.

MR COSGROVE: I imagine that from time to time you have discussions with the paper mill companies themselves about what's going on, do you?

MR MOODY: We do, yes.

MR COSGROVE: Reverting again to what we read earlier from the Amcor public offering document or whatever it was, do they give you a similar impression to that or a different one about their own prospects and what it might mean for employment in your regions?

MR SPINKS: Certainly from our point of view it's always been on the basis that it's a survival-type atmosphere within the mills. It might be a little bit more than that possibly at Maryvale because that's where they've spent money.

MR COSGROVE: That's where the investment is going in, yes.

MR SPINKS: That's right. But certainly the other three regions where the other three mills are, that's certainly not the case. As we've said earlier, there isn't any money being spent there and, as the commission has said in its report on page 109:

> Some adverse consequences for regional Australia were considered likely to accompany further tariff reductions.

We support that because we believe firmly that it will.

MR COSGROVE: Affect you?

MR SPINKS: Yes.

MR MOODY: We certainly believe, given the right conditions, that there are opportunities there for the company to grow and expand but I think we've got to have those right conditions such as, you know, the 5 per cent tariff remaining, such as a robust anti-dumping system, such as good forest policy. Now, all those issues need to be mixed in and if we get those things right, then we believe that there will be opportunities to invest in the future, but we've got to get those things right first.

MR COSGROVE: What's actually happening to population now in north-western Tasmania in particular? Is it stable, declining or - - -

MR SPINKS: Burnie is declining. It's actually no longer got the numbers to be a city even though it goes - called Burnie city. It's below those numbers which is recognised as a city. Devonport, which is where the mill area is, certainly that's reduced.

MR COSGROVE: Yes, I guess - well, I'm not sure but some of the changes taking place in the textiles and clothing industries might have had an effect in Devonport anyway, not Burnie I think. Although recently, as a result of the closure of that textile plant in the Hunter, wasn't there a decision to do a bit more in the - - -

MR SPINKS: That's right, yes, there was, yes.

MR COSGROVE: Is that Devonport or Launceston?

MR SPINKS: That's in Devonport, yes.

MR COSGROVE: But overall at best a stable population, probably declining now. Well, that's it. I don't think we have any further questions. We know you've taken some trouble to come this distance to talk to us and we're very grateful to you for doing that. If there is anything else you wanted to ask us, then please feel free.

MR SPINKS: Leave the tariff on.

MS MARTIN: I just think from the report that for the small benefit, which in the report you do call it a small benefit in removing the tariffs, that the adverse consequence that you also mention to, I think it's five industries and nine regions, far outweighs the small benefits that the general community gets and I don't think those regions should be the sacrificial lamb.

MR COSGROVE: Yes. We have tried with the analytical work that we've done to take account of the cost seriously. We've had two different approaches to measuring the costs and it still seems to be the case that there's a small - I've forgotten what word we used, "marginal" perhaps - anyway, small overall benefit after you allow for incidence of the cost. I think the difficulty that arises is mainly one of whether or not there are any concentrated costs which are particularly difficult to deal with, and there may be. I mean, this is something we'll still have to do some more work on before we finalise the report. But even if there are, there remains an important question for policy-makers and that is, what is the best way to address those costs to help try to explain that point?

It might well be that the benefits to the community at large from lower tariffs might be worth taking, yet at the same time there might be a need to provide some different form of assistance to - by assistance, I don't again mean, you know, put you on the dole but other ways of making people active again in the workforce in perhaps different sectors of production or different activities. That might be a better approach than denying the community in general the benefits in order to avoid some regionally concentrated or industrially concentrated costs. That's the sort of balance that we're trying to judge. Are the costs sufficiently great in certain pockets of the country or certain industries to warrant foregoing the gains which are clearly available from tariff reduction even though they might be small, or is it better to not reduce tariffs and to avoid the adjustment costs as a result? That's the sort of policy formulation dilemma we have to grapple with - - -

MS MARTIN: Retain the tariff or give us your absolute guarantee that not one person is going to lose their job in those regions.

MR COSGROVE: Do you think it's as strong as that?

MR SPINKS: Yes, most definitely.

MR COSGROVE: It strikes me that the paper manufacturing industry, like many others, is one in which technological advances are likely to make it increasingly capital intensive as we've sen in many parts of the manufacturing sector and indeed other sectors of the economy like agriculture. I mean, you know, we no longer walk behind horses ploughing the ground. That's come to be done by one person driving a big machine.

MR SPINKS: We still grow it though.

MR COSGROVE: Yes, we still grow much more than we used to, that's right, because those advances help us to become more productive. But at the same time, as we've seen, they produce, particularly if you take a longer run view, significant shifts in the pattern of employment and to some extent in the pattern of outlook. We used to have many more people working in agriculture than we now have, many more people working in manufacturing than we now have, in relative terms - I mean, total employment - and each of those has increased over the long term, although in manufacturing it's been pretty flat over the last 15 years. But now we've got a pattern of employment which is dominated by service sector activity so I rather doubt that the simple maintenance of a 5 per cent tariff will enable you to avoid any job loss. I'd like to think that was the case but there are other factors at play here which I think will inevitably result in some shifts in the pattern of employment while the total level of employment in Australia continues to grow, but that doesn't mean it will grow in your regions. No-one can guarantee that, I think.

MR SPINKS: Yes. I think too when, you know, the companies we're talking about are making their decisions about investment in the future, they write up a list of for and they write up a list of against, and what we want is a tariff on the for side on why they should invest and not on the against side.

MR COSGROVE: Yes, I can understand why you're putting that to us. Well, anything else? No? Well, we'd like to thank you again for coming along at some cost to your own otherwise spent time and thanks very much for all the documents you've given to us.

MR COSGROVE: Next is the Plastics and Chemicals Industries Association. Would you two please identify yourselves and the capacity in which you are giving evidence to us today.

MR VAN KRIEKEN: Ashley Van Krieken, commercial affairs manager, Plastics and Chemicals Industries Association.

MR McALLEN: And Bruce McAllen. I'm a member of the trade and economic council of the PACIA organisation.

MR COSGROVE: Thank you. Well, Ashley, what would you like to say to us?

MR VAN KRIEKEN: You have our submission in front of you so I won't read through the whole submission again.

MR COSGROVE: Yes, thank you.

MR VAN KRIEKEN: I guess I'd just like to state that our view remains the same as it was in January, which is that we would like to see the 3 per cent costing cost on the tariff concession scheme removed immediately regardless with what happens with general tariffs, that also there should be action undertaken to remove historical tariffs that exist on products or equipment that are no longer produced domestically. We obviously do not support any further unilateral action on Australian tariff levels and we certainly don't agree with the draft recommendation of 1 July 2001.

We basically feel that Australia is now one of the most open economies in the world, certainly within our region, and that the net benefits, as shown by the modelling the commission did, are quite small compared to what we see as a rather large gamble or rather large risks for industry, and hence the community, of tariff removal. Having stated that, we do acknowledge that of course through our membership of the International Council of Chemical Associations, we're seeking that chemical tariffs be reduced by 2010 but within a multilateral negotiated agreement.

From the submission I guess the main points that we would like to pick up on relate to what we saw as a strong emphasis by the commission relying on an argument from the Department of Foreign Affairs and Trade that Australia gains credits from undertaking early actions. Our understanding as a participant in many international negotiations is, we don't know exactly where DFAT is coming from on that. For instance, within the WTO negotiating framework or at the Uruguay round there was agreement reached on this so-called autonomous liberalisation for services but certainly not on goods, so perhaps DFAT has its signals crossed a little bit. Their view also seems inconsistent with what the federal minister for trade and several of the state ministers believe. If I can quote the reply from the national trade consultations between state, territory and federal minister Mark Vaile:

> Basically noting the recommendations in the draft Productivity Commission report for the unilateral removal of the remaining general tariff, state and

territory ministers urged that any reductions only be undertaken within the framework of ongoing multilateral trade negotiations which provide improved market access.

So certainly that's one area where we think perhaps DFAT needs to provide some more evidence to the commission to support that argument.

MR COSGROVE: Yes, well, we'll follow that up certainly.

MR VAN KRIEKEN: The other main point we had was why there was really no consideration of a removal of tariffs post-2005. I think the report mentions that you considered the status quo of removing them at 2010 but that wasn't really expanded a lot, and there was also in my mind perhaps the opportunity to do some modelling where you have a reduction in Australia's tariffs sometime between 2005 and 2010 and build into the model some reduction in other trading partner's tariffs - for instance, many of the ASEAN countries, I believe, under the ASEAN free trade agreement, have to have their import tariffs phased down to 5 per cent - and perhaps seeing what benefits then came to the Australian community.

MR COSGROVE: You may be able to help me there. Would that help a country like Australia? Is that a preferential trading agreement, in other words, the lower tariffs would apply only to the members of that free trading arrangement themselves rather to others? I'm not sure.

MR VAN KRIEKEN: It would.

MR COSGROVE: That's how it applies? So we would gain nothing from that?

MR WOODS: Only to the extent if CER and AFTA - - -

MR VAN KRIEKEN: Yes, if they're well-linked.

MR WOODS: But that's a separate - - -

MR VAN KRIEKEN: Yes, that's a separate issue.

MR McALLEN: And longer term it's a big wish.

MR COSGROVE: There is a task force I think working on that.

MR VAN KRIEKEN: Yes. That is a point to consider and, as I said, it would be interesting to see. Then I think you would obviously have dual benefits of not only the benefits of removing tariffs on imports into Australia but also improved export markets for - - -

MR COSGROVE: Yes, there is not doubt we'd gain more if others reduced their markets, and we would open their markets if we were doing the same.

MR VAN KRIEKEN: So I guess it would be nice if you had modelled something like that. Also on the regional modelling, the - - -

MR WOODS: Regions as in within Australia?

MR VAN KRIEKEN: Within Australia, sorry, yes - the impact on the regions of Australia. Much like the forestry industry, we feel that perhaps more work needs to be done there and we don't necessarily agree with all of the modelling results. I think there would be a much large impact in the regions where our industries are located than what the modelling suggests.

MR COSGROVE: Do you have anything specific in mind there in terms of particular regions? We recognise, as we've said in the report, I think, that the regions which we're able to analyse are relatively large, even though there are 57 of them in total, and they all figured around a relatively sizeable urban centre. It might not always be a city of 100,000 people but some sizeable unit. It's always possible, as we've acknowledged, that any smaller part of one of those 57 regions might be affected differently than the results estimated for the region as a whole. They might be worse off, they might be better off. We don't have the tools to get down to that level, but I was wondering if any of the 57 struck you as surprising results-wise.

MR VAN KRIEKEN: Not that I've noted down, but certainly if we take South Australia, for instance, which already has a slightly higher unemployment rate than the national average, and you have a company such as Penrice, I'm led to believe that if there plant was to close it's going to cost in the vicinity of 12-odd jobs. They could probably tell you. I believe that's what - - -

MR WOODS: We did have Penrice here earlier today.

MR VAN KRIEKEN: That's a substantial number of jobs for any region to lose and - - -

MR COSGROVE: I think it was Penrice who told us that they were already laying people off with a tariff of 5 per cent.

MR VAN KRIEKEN: I believe that's the case, and so it would go down further. I guess the other issue I had with the regional modelling - and this might be my own - I didn't have a lot of time to read the supplementary paper but you seem to only produce the results for the long term, that is, after nine years, whereas it would be interesting to see what the first couple of years' impact would be, because I imagine there would probably be much more of a negative impact on those regions.

MR COSGROVE: Yes, I'd need to check that. You might be right. It depends I think on what assumptions the model makes about the pattern of change in real wages. If there's an early gain in real wages then there may be a weaker pattern of employment growth and vice versa. I'd need to look again at the supplement to - - -

MR VAN KRIEKEN: I guess we're not seeking to criticise the model as such; we're just seeking to highlight that certain assumptions can produce different results.

MR WOODS: And the finer graining you may get to particular distortions, but the modelling can only go so far.

MR VAN KRIEKEN: In respect to that, I'd also just like to ask, in table 3.5 of the draft report, where you're working out your labour adjustment costs, you reach a figure of $91 million. That's based on a figure of 29,000, which I'm assuming is average weekly earnings.

MR COSGROVE: That's right.

MR VAN KRIEKEN: I guess as a point once again on assumptions on the model, looking at the ABS data I could find, the average salary for manufacturing industry is actually upwards of $38,000 a year and certainly surveys in our own industry - and I have confirmed this with some of the companies - are closer to the 50 to 60 thousand dollar - - -

MR COSGROVE: Yes, we've been told that today.

MR VAN KRIEKEN: So I guess once you start factoring those figures the labour adjustment costs suddenly become a lot larger than the model has become.

MR COSGROVE: Yes. I think we used average weekly earnings because we are looking at this not merely in terms of what might happen in the manufacturing sector but the economy at large. At the same time, it's probably the case that most of the adjustment is likely to be occurring in the manufacturing sector, so we might need to re-examine the numbering that we've used there.

MR McALLEN: I'd appreciate it if you would do that exercise, because there seems to be a feeling here that the commission is somewhat comforted by the fact that there is jobs growth. But I think what we're saying here is that you can't extrapolate that that's a one on one, that if you create a job over there in the services sector it replaces a job in the manufacturing sector.

MR COSGROVE: No, we've explicitly said that that would not be likely to be the case. However - - -

MR McALLEN: However, to the casual reader it appears that you're gaining some comfort that the marginal adjustment costs will be somewhat ameliorated by the fact that we're in an employment growth mode, if you like.

MR COSGROVE: Yes, I think that's right. One would presume that people displaced from a particular job would be more likely to find employment in an economy which is growing than in one which is stagnant. I think most people would agree with that.

MR McALLEN: But what kind of job, is our point.

MR COSGROVE: Indeed, and that's what we've been trying to do with the adjustment cost measure.

MR McALLEN: I don't know whether the commission has ever looked into the ABS job creation criteria, but it's my understanding that a job is created when someone is employed for 15 hours a week and that's a job. What we're saying here is that the manufacturing sector has been through a period of restructuring now, as you're probably well aware from your historic analysis, for over 25 years probably. We're down to a situation where there are no simple really low wage labour jobs any more. The manufacturing sector is now quite sophisticated, quite export oriented, and its average weekly salaries, as Ashley pointed out, are a lot higher than average weekly earnings and in our industry they're probably three times average weekly earnings. So the creation of one job at McDonald's doesn't equate to one job lost at Orica or one of the chemical manufacturing sites. It would take nearly three jobs at McDonald's full time to replace one job.

So we're punting here with a very nervous manufacturing sector, one that's trying to cope with the restructuring that's gone on for the past 25 years and one that is intent on exporting for its survival. The one negotiating instrument that we have available to us is a 5 per cent tariff and we are risking that in terms of early self-sacrifice, if you like, on what we would say is a dubious rationale of adjustment versus benefit and, as Ashley said, we just can't play with that.

We urge you to redress or resolve the conflict that's in the Department of Foreign Affairs. It's obvious that we are getting messages - I don't know whether your other representations today have said this to you or during these hearings - that there is some split, if that's the correct word, within the Department of Foreign Affairs on this rationale of an autonomous liberalisation. Certainly Peter doesn't appear to be talking to Paul up there following the release of your draft report. Also the dubious benefit of negotiating bindings, which is implicit in this talking about autonomous liberalisation, because what you've got left to do and offer is bindings. Now, the offer of bindings without any immediate market access, I think you will also, if you explore the trade negotiators, is probably very, very low.

MR COSGROVE: It may be, but it's certainly taken seriously because people know that at any point - - -

MR McALLEN: Who takes it seriously?

MR COSGROVE: The WTO and the member governments, because they know that at any point of time - - -

MR McALLEN: They want applied tariffs bound, right, so that they don't go back up.

MR COSGROVE: Exactly, that's right.

MR McALLEN: But the negotiating process is about market access, immediate benefits.

MR COSGROVE: It's probably about both, yes, bound tariffs and market access.

MR McALLEN: Bindings alone - if you've got zero tariffs and you agree to bind at zero, that's worth zilch, and I think you'd better explore that with the Department of Foreign Affairs to see how they get on with that in their bag when they go to the next WTO round.

MR WOODS: Can I pick up at this point. It's something that was stressed at your last presentation to us and again both in the submission and in the evidence you're giving today, and that is a high focus on the question of reciprocity, that you see a significant importance attaching to our tariffs being something that we can use in the bargaining process, opening up access to others. Is that a sort of fair assessment of your key focus in this debate?

MR McALLEN: That is what - yes, and it's probably not going to be for the benefit of the manufacturing sector. It could be for agriculture.

MR WOODS: That's what I was then about to explore. If reciprocity, as you're saying, is your key focus, then it would lead to a consequence that, if you are successful in international negotiations, you would therefore accept tariffs in Australia going down to zero in that context?

MR McALLEN: Yes. At least we'd have the comfort of getting something for the nation.

MR WOODS: In which case then, how important are the tariffs for the protection of the domestic industry?

MR VAN KRIEKEN: I think that is a question that really differs between companies, and I guess one of the things with PACIA is that it represents so many different subsectors, if you like, of the one industry.

MR COSGROVE: But you can't expect a government to set tariff policy by - - -

MR VAN KRIEKEN: No, of course not, but in terms of the protection afforded I think the majority of our members would certainly see that there is some protection afforded by the 5 per cent tariff. Speaking to many of the members, they include the 5 per cent tariff in future investment decisions, in their decisions as to where they're going to explore for future markets, for future domestic production. But, having said that, I have no doubt the commission could, if it went looking, find members within the industry who don't factor in tariffs. But I'd say my knowledge and speaking to people is that the majority of our members do feel some level of protection from - - -

MR WOODS: Based on your evidence, you're saying that the principal concern for you is reciprocity, not domestic protection.

MR McALLEN: But there's a trade-off here. If we can get access to the Asian markets for our plastic products and expand our export operations, we can offset the 5 per cent effect. Now, it's hard to generalise because there are some types of industries in our organisation that are not export oriented and, of course, would see 5 per cent as quite vital. But there are many, and particularly in the plastic processing side, that are looking for export markets in Asia particularly. There is some evidentiary data there that demonstrate to you the tariff levels that exist in Asia on plastics and plastic products.

MR WOODS: We have got the table.

MR McALLEN: If we can negotiate those downwards by surrendering our 5 per cent, then we have a win situation for a lot of our industries. And like you, we can't advocate for each particular industry that comes before us saying, "It's 5 per cent, it's vital to me," when another one will come before us and say, "Well, I can do away with the 5 per cent if I can export polypropylene widgets to Malaysia and so they benefit." So, talking overall, we like you have got to take a broad picture here and advocate a framework which we think best suits the industry. Just setting aside this argument about autonomous liberalisation and whether binding is worth a zilch at all in tariff negotiations, one of the things that is missing from this whole debate is any country coming out and saying forthrightly that "free by the terms of our Bogor commitment" means zero tariff.

MR WOODS: Yes, I notice you raise that in your submission.

MR McALLEN: That's a big gap in this debate. Australia hasn't said it to date. If you want to take the high ground here in terms of tariff elimination, let us declare that Bogor for us means zero in the column. It doesn't mean 5 per cent, it doesn't mean 7 and a half per cent, as some other countries I think are trying to wiggle around the Bogor commitment by saying that we have got free trade. The ASEAN thing that moves to three we referred to a little bit later. There is some anecdotal information that would say they're there with three, that's free. Free means zero - to us it does. We're talking here about specific tariff rates, removing from 5 per cent down to zero. Up-front we should get our trade people and foreign affairs people to say, "For us that means zero." I think we could get some recognition if we were to do that. So we offer that as a very positive suggestion to the commission: it's opportune for Australia to signal that what they're talking about at Bogor was in fact zero.

MR WOODS: You will have noticed our wording in our draft report on that particular issue where we used the phrasing:

The further reduction or removal of Australia's remaining tariffs would be consistent with this commitment.

We understand the subtleties of the languages of the governments and we're very grateful for your forthrightness in how you've expressed it in your submission.

MR VAN KRIEKEN: I think also if I could add, building on what Bruce has just said, is probably the other key issue we'd like to get across to the commission is that of timing and that obviously it is going to take some time for international negotiations, as Bruce was highlighting, to come to fruition. Certainly there are signs already that the WTO looks like it's getting back on track and is set to have its next round of meetings I think late 2001. So I guess also there we do question the timing and once again where your draft recommendation was tariffs at three from 1 July 2001. I come back again to asking: should perhaps some modelling have been done on reducing tariffs later, between 2005 and 2010, when it's more likely that negotiations are going to be able to be resolved?

We also put forward an option, I guess, in our conclusion, which is basically that, if the commission was to recommend that the TCS cost impost be removed, tariffs on historical products that are no longer produced in Australia were removed, Australia was to come out and define "free and open" as zero tariffs, there would in fact be some benefit to the economy. It would be very small, but the modelling the commission has done overall is very small. We would have the high ground, if you want to put any weight into DFAT's autonomous liberalisation background, and it would allow both industry and government more time to enter into these negotiations and to plan for future investment and revenue decisions. So I guess we're looking at an overall picture and certainly, I guess, important.

MR McALLEN: Can I suggest a methodology which has been employed in the past in exercises that looked at - I think in those days it was called tariff simplification. Under this sort of exercise there was scope to make the tariff less complicated by eliminating the various splits and in order, if you like, to identify those 5 per cents that in fact protect nothing and for where there is no equivalent TCS that embraces the whole of the particular classification. It may be appropriate to undertake an exercise in tariff simplification, if you like to call it that, by posting the various tariff schedules in the press and inviting industry to identify whether or not they make anything covered by item 29, 49, 400 or whatever it is, and zero response is to be taken as there is no-one out there. Response to a particular line is indicative that there is someone there. But this exercise, like a previous tariff simplification exercise, would eliminate a lot of these 5 per cent lines that are serving no purpose besides occasionally capturing something that might come into the country.

MR COSGROVE: The Department of Industry, Science and Resources has only recently conducted such a process.

MR McALLEN: Yes, they called it nuisance tariffs.

MR COSGROVE: Yes, and it proved to be I think much less simple than one might have thought.

MR McALLEN: Yes, the Department of Industry, Science and Resources is known to complicate things unduly sometimes.

MR COSGROVE: Well, whether that's the case or not I think there's a tendency for producers to, as I say, perhaps come out of the woodwork and say, "Oh, yes, we might be making that sort of thing in a couple of years' time and don't get rid of the - - -"

MR McALLEN: What might be intended in a couple of years' time, no, that's not the purpose of the exercise.

MR WOODS: I mean, we understand the sentiment of your point but, just picking up from John, where the department commenced a review of 2000-odd tariff subheadings and a grand total of 268 subheadings were finally identified as - - -

MR COSGROVE: And in fact, if I remember rightly, there was an interim announcement by the minister that 400 would go.

MR WOODS: Yes.

MR COSGROVE: Which subsequently became 200 and something and then they were to be removed on day X and they were actually removed on day XY - - -

MR WOODS: We do fully understand your point.

MR McALLEN: They've used a bargaining point to offset the claims on Howe leather, by the way, you know, as a sop to the United States.

MR WOODS: No, we fully understand your point.

MR McALLEN: You know, you've got to be aware of the wider use of this thing as well. One other thing about that: I was going say do that, but does the commission model the removal of the 3 per cent? What benefit would that - - -

MR COSGROVE: Yes, I was going to come to that.

MR McALLEN: You've just done that as a single exercise.

MR COSGROVE: Yes, it has.

MR McALLEN: What does that show in relation to the overall benefit? Is that - - -

MR COSGROVE: It shows a smaller benefit than the one which we have put forward as a preferred option.

MR McALLEN: How much smaller?

MR COSGROVE: Not a lot.

MR McALLEN: Half? Is it 90 per cent of the benefit you'd have identified?

MR COSGROVE: I don't know that it would be 90 but it would be at least half, I think, yes.

MR McALLEN: Most of it, or at least half?

MR COSGROVE: Yes, probably more than half.

MR McALLEN: So most of the benefit that you've identified by the complete elimination of 5 per cent can be done by restoring the TCS 3?

MR COSGROVE: No.

MR McALLEN: It can't?

MR COSGROVE: No, not in terms of the gross benefit. You will have seen, I think - it might be in the modelling supplement rather than in the draft report, but we've estimated the GDP gain from removal of the 5 per cent tariff at .08 per cent of GDP and removal of the 5 per cent tariff accounts for .07 of that .08. So, in other words, removal of the TCS 3 per cent duty is equivalent to .01 of GDP.

MR McALLEN: .01 of the .08.

MR COSGROVE: Yes, correct, one-eighth, yes.

MR McALLEN: One-eighth of the total.

MR COSGROVE: Of the total benefit. Now, again to be fair, it needs to be said that if you kept the 5 per cent general tariff and removed the 3 per cent TCS duty, then the level of adjustment costs, which quite properly need to be assessed against the gains, would be lower.

MR McALLEN: Lower, yes.

MR COSGROVE: And in that connection I wanted to ask you in respect of your recommendation in this area: if you were to remove the TCS 3 per cent duty would you also envisage removing the policy or project by-laws, or would you want to keep them?

MR McALLEN: We didn't specifically address the project by-law regime.

MR COSGROVE: Are they of relevance to the chemical sector, do you know, for importation of some capital equipment, for example? I might have thought they would be.

MR McALLEN: They do come into play, Mr Chairman, on major projects. I can recall the Cooper Basin to Botany pipeline project which delivered - - -

MR COSGROVE: Gas.

MR McALLEN: - - - gas to Botany for use in the petrochemical industry, as one that utilised the project by-law scenario.

MR COSGROVE: But you haven't thought about whether or not you wanted to see that go?

MR McALLEN: We haven't. I guess it is our dream that we can go back to major investment in chemicals and petrochemicals, when in fact these government policies then come into play. Yes, I would advocate retention of the project by-law arrangements.

MR COSGROVE: Fine, thank you.

MR McALLEN: Which hopefully will be able to be utilised on the North-West Shelf and future chemical projects.

MR COSGROVE: I wonder if I could ask you a question which relates to the general health or prospects of the chemicals sector. I've been looking at the 1999 annual report of Orica, formerly ICI, and if you just bear with me a moment I'll read a few points from that document. They note that they've been affected directly by lower prices and indirectly by a downturn in the business of their customers, particularly in the mining sector, but go on to say that:

> We have improved sales volumes under these conditions and there are signs of improving performance in all of our core businesses.

And further on they're confident that:

> The current improvement program -

that's, you know, getting a better structure of costs and the like, raising productivity -

> puts Orica in a strong position when market conditions improve and will result in better shareholder returns.

Another piece says:

> It is important to remember that we have been part of the chemical industry for a long time and we have not only survived but over the long haul prospered. As expected, Orica businesses have made significant improvements over the year. There is little doubt that the clear focus on our strategy and the productivity and business improvements we have built into our operations have helped us weather worldwide economic difficulties.

They talk about investing almost 150 million in a chlor-alkali business.

MR McALLEN: In Melbourne, actually.

MR COSGROVE: Well, it says "at Laverton and Botany".

MR McALLEN: Well, Melbourne is Laverton.

MR COSGROVE: Yes:

> They are due for completion over the next 18 months. This major investment will add significantly to the profitability of the business.

They're some extracts. You get the impression from reading a document like that, that at least that company thinks it has a profitable future.

MR McALLEN: The share market wouldn't agree with you, if you have a look where the shares are.

MR COSGROVE: Right.

MR McALLEN: You would have to talk to Phil Leichardt about that. I mean, it's not for us to comment on Orica's statement. I could make some peripheral comments, I suppose. Being an ex-employee, I'd be immune from any sort of immediate retaliation from the management. The explosives business is of course a worldwide business, and general downturning in commodities worldwide would reflect, I would think, the poor state of that explosives business internationally. I've heard the CEO say that in the last 12 months they have disposed of $1 billion worth of assets, but hardly to me. It seems to reflect something that is growing. Perhaps the core businesses they've got left, they can regroup, take on with better technologies, productivity improvements through all the mechanisms that we now enjoy in terms of science and whatever, and go forward on a much sounder base.

The question of the future of the industry is inextricably bound with government industry policy, and there had been several attempts through the facilitator of investments to get major projects under way in Australia in the chemical industry. We were encouraged by success and by Visy in the Tumut pulp mill, by the people up at Gladstone, I think in the aluminium industry - - -

MR COSGROVE: Comalco?

MR McALLEN: Comalco.

MR COSGROVE: Successful in getting taxpayer subsidies.

MR McALLEN: Successful in getting, yes, a consolidation of state, federal and private initiatives going to get major investment happening and so forth. I think that still is the ambition of the industry, and it has still got major projects that we've identified in PACIA through surveys done. We've identified $6 billion worth of projects in a study done no so long ago, but each of them needs, you know, just that little kick along from each of the participants, whether they be the state government that can do something with infrastructure, the feds that can do something with R and D or accelerated depreciation.

I suppose that's ta-ta now from Sunday, but these major projects, like other major products done in other countries of the world, always see a partnership of government and private in this industry, in this major petrochemical industry. I can't think of one major investment initiative that's gone forward in South America, Asia, where there hasn't been some significant government contribution. I know that's a long-winded way of saying let's hope we can come up with something that fits the parameters in terms of satisfying what government wants and satisfying what industry wants.

I think yesterday and the day before we saw the Bracks government announce quite significant partnership proposals for industry and the Victorian government. That may give rise to something that Orica is trying very hard to do, and that is to establish a urea plant in the southern part of this state, utilising Bass Strait raw material etcetera. So I think there are some good signs there, and we remain optimistic, but we are particularly focusing our efforts on building our exports into those markets, particularly the Asian markets at the moment.

MR VAN KRIEKEN: I guess evidence of something in the future is that we've also begun an action agenda with the Department of Industry, Science and Resources, which obviously is looking at many of these issues. So I guess if you look at that industry, we are quite happy to work with the government and try and work out how we can get these investments across. I don't think our members would have allowed us to enter into such an agenda if they didn't think there was a very positive outlook for the industry, so I think also the commission has to take that into account: that we are working on the action agenda - the final copy comes out next year - which I think is that - - -

MR McALLEN: Yes, next year.

MR VAN KRIEKEN: Next year, in the process of undertaking the work now.

MR WOODS: Just to clarify your views on timing, in parts of your submissions you talk about how you wouldn't support the elimination of tariffs before 2005, and in other parts, including your conclusion, you talk about between 2005 and 2010. Apart from the desire to put it away as far as possible, is there a more objective way of assessing when is the right time, other than on the reciprocity argument? I understand that one quite clearly, but are there other factors that you would take into account in timing? If so, how could a government at arm's length judge that the time is right as distinct from, "Well, it will be right in a few years time"?

MR VAN KRIEKEN: If I can start by mentioning that through the ICCA we are bound to have free and open chemical trade by 2010. In terms of how the government would gauge that, certainly it shouldn't be viewed that we are merely saying, "Let's put it off for as long as we can," but I think the government has to look at several factors, and I think it has to look at the level of investment that is currently under way in the industry when it came to looking at tariffs. I think it has to look at the general market conditions, it has to look at what has happened in other countries. There is also the question of what is going to happen in relation to the greenhouse issue. That could of course have substantial ramifications for investment decisions, not only in Australia but worldwide, and I guess all those factors are building into saying: let's pause, let's give industry time to adjust. The motor vehicle industry and the clothing industry tariffs are up for review at 2005 - that the government again at that point, assuming they stick to that 2005 date, assesses tariffs.

But it is a difficult question, and we really would think that by then we would be able to have a multilateral agreement in place. But if it didn't exist, then I think the government has to look at the various factors and has to consult with industry. I would hope that our members have built the 2010 deadline into their investment plans, and I would assume that that would remain the same, but that we give them the extra time to develop this investment. As Bruce said, the reports we had done by Access Economics identified $6 billion worth of greenfields and brownfields investment that could occur, but obviously it's not going to occur in the next 12 months. It's not going to occur in the next two years.

MR WOODS: I presume you believe the companies would like some certainty as to what the tariff scenario is in finalising those decisions though, so an early decision by government, even if it specifies a later date, would give them greater certainty which they could take into account in their decisions on investment. So, rather than keep it all open and have another look at 2005, it doesn't seem all that helpful to industry in factoring the environment into their decision-making process. I would have thought they would prefer to know now as to what the scenario - I mean, they know an end date, the 2010 as you were discussing.

MR McALLEN: It's good if we can build in certainty, but we can't, and this is as uncertain as the tariff, as the exchange rate or government industry policy or its lack of industry policy. Our 2005 line in the sand there is of course giving us the time to see what the negotiating position is going to be on. It's based solely on that rationale of reciprocity and seeing what we can get in the round. If Mike Moore is right, and in fact the quads are coming closer together, particularly the USA and the EU on those issues that prevented the Seattle round, then it looks like we'll kick off in the year 2001, and where we're saying, "Give us our negotiating coin," they almost cut a deal with you. If there's no WTO round, then go for it, right? But if there is a WTO round, let's have our 5 per cent.

MR WOODS: Ashley?

MR VAN KRIEKEN: Perhaps not, but - - -

MR McALLEN: I don't want to make that other than a personal sort of a quest, but - - -

MR WOODS: I think Ashley made that clear.

MR McALLEN: That's how I feel about it.

MR VAN KRIEKEN: You made my heart stop for a minute there.

MR McALLEN: But I know the Productivity Commission is not - that is where our 2005 is coming from.

MR COSGROVE: Yes, I don't have any further questions. Is there anything else you want to say to us, Ashley?

MR VAN KRIEKEN: I think - - -

MR McALLEN: Nothing that I could put on the public record.

MR VAN KRIEKEN: No, thank you.

MR COSGROVE: Thank you both for coming along.

MR McALLEN: Thank you very much for your time.

MR COSGROVE: Before I ask our participants from Volvo Truck to identify themselves, I'd like to mention for those of you who are still with us that I'm hoping still that we can conclude this hearing by about 5 pm. I don't wish to cut people short at all and I don't think we'll need to, but I do now plan to have no further break for coffee of a sort of formal kind this afternoon. But should anybody feel the need for a top-up or a sweet biscuit, then please feel free to pop outside and have some refreshments. Now, Gary, would you and Col, I think it is, identify yourselves please and indicate the capacity in which you're with us.

MR SILVERSIDES: We'll deal with that very quickly, John.

MR COSGROVE: Thank you.

MR SILVERSIDES: Gary Silversides, I'm the general manager for the factory in Brisbane for Volvo Truck.

MR DAVEY: Col Davey, I'm the consultancy manager for MPG Pty Ltd, the logistics group of Mayne Nickless. We've been customs consultants to Volvo for a long time.

MR COSGROVE: Thank you, and thank you for the further submission that you've provided to us. Are there any particular points you wanted to bring to our attention, Gary?

MR SILVERSIDES: Yes, there are. This afternoon I want to talk more about Volvo than tariffs. I know we're here to discuss tariffs, but at the end of the day where we'll get to is the effects that the removal of the 5 per cent tariff will have on a factory based in Brisbane. I'm sorry if I personalise it, but it is a personal issue and we're talking about in the region of 200 to 250 permanent positions. I think from this point on I'd like to just say that Volvo are aware of the draft productivity report and the recommendations carried in that report, and I'm hearing today that at least I've got it right in the fact that the initial recommendation is that the tariffs be removed in July of 2001.

MR COSGROVE: That's the preferred option, yes, amongst all.

MR SILVERSIDES: The preferred option, yes. I suppose our submission is based upon the effect that the recommendations will have on our factory, as I've said earlier. I think what I'd like to do is give you an idea of - how can I put it - the global mentality of Volvo and the company that we work for. They have four major manufacturing facilities in the world, of which they produce 85 per cent of their trucks from those four factories. So you can imagine when you're talking about a company that produces, for instance, 50,000 trucks in one factory alone and a global company that produces 175,000 trucks for the marketplace. Little Australia represents about 1 per cent of that total volume, exceptionally small.

They have a mentality which I guess is similar in a lot of global industries nowadays, of looking at their costs as to whether they can import a product or export a product into a country better than it can be produced in that country. I think a classic example of Volvo's approach is that we have 15 smaller factories globally as well as those four major factories. Those 15 factories are in countries such as India, who carry a 42 per cent tariff on CBU; Malaysia, a 30 per cent tariff on CBU; China, a 30 per cent tariff on CBU; and obviously two of the major factories are in the USA, 25 per cent, and Europe, 22 per cent.

Their approach is one of looking at Australia on a regular basis, I can assure you, and as recently as last year they did the usual rounds of checking whether we were a profitable organisation or whether it was more profitable to bring in a fully built-up truck and do the modulisation and the changes here in Australia. From that review it came back that we were marginally more expensive, even with the freight components and everything else from Sweden. I guess the thing that saved us is the fact that we do have local design services at the factory. We do have probably the best quality truck in the Volvo system to date, and this market is very reliant on a high-quality product.

We offer an extreme amount of market flexibility due to lead time and also due to the fact that we can adapt to ADR specifications, which are basically the specifications that are set by the legislative body that looks after the truck industry, and I guess we have the market experience of building over 24,000 trucks and buses down here for this market. So it came down to not a monetary decision at this point in time, even though the cost of a truck might have been reduced to the marketing and I guess to the truck companies by somewhere in the region of about $1200 per truck.

MR COSGROVE: At an average cost of?

MR SILVERSIDES: At an average cost of somewhere in the region of about $100,000, $110,000 a truck. So I guess when you look at it from that point of view we're pretty skating on thin ice, and that's why I want to talk about Volvo as an entity as opposed to the general tariffs. I guess also I'd like to emphasise that the four largest companies that are basically in the industry today all have local manufacturing and, when you look at that, the factory in Wacol was set up during a tariff regime of approximately 35 per cent in 1972 and today we're 5 per cent. If you have a look at the market figures, the total local manufacturing market figures represent 54.3 per cent of the current market and that's today, on today's figures.

In 1999 it was 62.6 per cent. In 1998 it was 71 per cent and in 1996, only four years ago, the local manufacturing industry for the truck market, heavy duty truck market, represented 88 per cent of the market. So I guess what I'm saying there is there has been a 26 per cent drop in market share for local manufacturers during that period of time. Not insignificantly, you know, Freightliner, Ford, Scania, Western Star, Mercedes, Isuzu, Mitsubishi, Hino and Man have all stopped local manufacturing and, if you like, CKD importing into this country. So I think from that assumption we would turn around and say that the broad assumption that the proposal states, in that there will be limited or insignificant impact on industry, is a broad

assumption and not obviously one that's borne on specific industry data.

We understand that. We understand why broad assumptions have to be made as well. But I think also we need to take into account specific industries when we're talking about such issues that affect a large amount of the Australian population. To give you a classic example, Volvo Cars, which are now owned by Ford, did remove local manufacturing from Australia, simply based on the fact that it was not competitive any more. So they are a pretty ruthless organisation. They have to be in the global marketplace, in the automotive industry, and I suppose they will continue to look at our costs and whether we are potentially viable.

I think at this point what I'd like to say is what are the anticipated effects of a tariff reduction in Australia for that factory? I picked up on the point earlier that was made, that in my opinion I think if it's implemented in 2001 it will mean the closure of the factory in Brisbane, and that's not an emotional statement. It's just based on the simple fact that we'll be non-competitive. The reason is, if you look at the tariff component or the duty component of a truck we build in the factory today, the removal of that tariff will bring the cost down by about $400 but the removal to our competitor's truck will mean that a CBU comes down about 3 to 3 and a half thousand dollars. So I guess what that means is we're going to have to find an extra $3000 per truck within the next 12 months. It ain't there, it's as simple as that.

So what does that mean? I guess as far as I'm concerned and the business is concerned we're talking about 180 personnel that work directly for the Wacol factory, and I must emphasise that that's a local workforce. It's in an area which has higher than national employment anyway, in the Ipswich area of Brisbane. I hear the point of retraining and replacement of those positions being mentioned today. I've got to say from our industry perspective - and I can only speak of that - retraining of those individuals into more service orientated industries, which obviously is the growth market in Australia today, is not going to be an easy task and not something that personally I believe the industry can adapt to very quickly, and certainly not in the next 12 months.

I guess from that also we're talking of between 30 to 70 jobs that support the factory and our dealerships. So I guess in total, you know, we are looking at round about between 200 and 250 jobs. I'm not going to go into the effects of the industry because I don't think I can speak for the industry, and I think I've said - - -

MR WOODS: Can I just clarify, you mentioned the dealerships. Presumably there would still be sales of Volvo trucks, although imported.

MR SILVERSIDES: There would.

MR WOODS: I understand in terms of your own factory. I don't quite understand the inclusion of dealerships in the equation.

MR SILVERSIDES: If you look at the previous shutdowns of factories and heading towards CBU - and I can state two recent examples of both Ford and Scania - they've lost significant market share in doing so. For instance, Ford just basically dropped off the map in regard to their total market share for the industry, and I can provide back-up data at a later date for that. But what I'm saying is - - -

MR WOODS: But the truck retailing would be the same, presumably.

MR SILVERSIDES: Yes.

MR WOODS: And therefore total employment in the retailing industry for trucks would be roughly the same.

MR COSGROVE: And also perhaps in the assembly work of imported truck components.

MR SILVERSIDES: No. Basically on the assembly side we would lose those people because there's only one other manufacturer of trucks in the industry in Brisbane and that's Mack Trucks, and they certainly wouldn't be able to absorb that workforce.

MR COSGROVE: No, I can understand that. But, you know, people do move. The Australian workforce is pretty highly mobile. We've got some figures in the report - I've forgotten the precise percentage of the workforce that changes jobs or location every year but it's pretty high. So some people at least - not all, no doubt, but some - might be prepared to go to Sydney or Melbourne, wherever other truck assembly work is available.

MR SILVERSIDES: But I would also say there's going to be a downsizing in the amount of positions, due to tariff removal, available for industrial personnel around Australia. So to be able to say that people will be able to relocate into other industrial areas I'm not sure could be a valid argument when you have even admitted in your report that there will be a general downsizing in the availability of industrial labour.

I think the other thing we have to consider is basically our business supports some 80 local suppliers and, if you look at where we were five years ago as a percentage, our local content was about 5 per cent and our current local content is closer to 30 per cent, and we're actually in the process of trying to attract some of our more global suppliers to set up operations in Australia to service our factory and to service the local industry. I guess only while there's a factory there is it attractive for them to do that. I guess that at the moment we spend somewhere in the region of in excess of 30 million annually locally with our suppliers and - I've been doing some canvassing last week - I do know that the industry spends somewhere in excess of 200 million and has somewhere in the region of about 400 local suppliers.

I don't know what the effects of the 5 per cent tariff would be and I don't presume to want to put that forward. All I can say is on top of the 200 people I would think there would be some more downsizing of those operations as well, but I can't quantify it.

I think on the other issue that's been mooted today, quite commonly and one I've picked up on as a general interest one is export potential. We do export 100 trucks today to New Zealand. That would be lost revenue for Australia because the trucks would go directly to New Zealand as opposed to going from Australia.

MR WOODS: So they're fully built up?

MR SILVERSIDES: Yes, we build them in our factory and then export them to New Zealand. I guess the other thing is as well, and one of the things that we're interested in, that we do have some future potential in the Japanese market, and it's even discussed within Volvo, of producing some trucks for that market. That equates to an extra 300 to 400 trucks per year. Given that we're an industry that's driven by volume, the effect of that is reduction of the cost of the truck to the local industry. So we're fairly keen to look at all export potential, because the more trucks we build in that factory the lower the cost to the local market is and potentially the higher market share we'll gain within Australia.

I've got to say that one of the interesting things for me is the descriptions on the equalisation of the playing field. I mentioned earlier some of the tariffs that are in place in some of those other countries. I guess it's not only the tariffs that we're struggling against; it's also that many countries have local content restrictions. For instance, India: the reason why Volvo set up a plant in India is obviously because they've got very high tariffs, but when they get there they have local content restrictions as well. We also have some issues in exporting trucks there in a similar manner, in the fact that they do actually emphasise some local input, some local content restrictions on imported goods as well.

MR COSGROVE: It's one of the reasons why India is such a poor country.

MR SILVERSIDES: Yes, that's right. Also many of the countries that we've talked about today have subsidies for local manufacturing assistance as well, and that's something we don't necessarily enjoy here in Australia. So I guess realistically we'd like to be in an equal playing field. We know we're not there and we're realistic about that, but we would genuinely like to be there. I guess based on that we feel that until the pressure is asserted on our trading partners - and we've talked about harmonisation today - it's going to be very difficult for us to achieve equal playing fields. I know it's been a general line that people have been throwing at you today, but we're another company that genuinely believe the dissolvement of our 5 per cent is basically throwing the baby away with the bath water in the fact that we'll just never get further reductions in the tariff from our trade competitors.

I guess we can turn round and say that we can certainly offset the 5 per cent reduction in tariff if we can achieve export growth. The only way we'll achieve export growth is by being on an equal or more equal playing field with our competitors. I can certainly turn around and say to you if we had a 10 per cent tariff in China, Australia would probably be providing trucks for Volvo for the Chinese market. It's as simple as that, because we produce a good quality truck here. The simple fact is we don't stand any chance cost-competitively, and they can't do it from Sweden, USA, Belgium or any of their other major plants around the world, to get a product into China at a reasonable cost. So I think we are toeing the line along with many other people in the fact that we believe until we have some equalisation of that Australia shouldn't let go of its final 5 per cent.

That brings me to I guess commenting to some degree on the options that are available to us. I'm not sure there are options, but we'll go through them. Option 1 of the zero per cent by July 2001 for us, for Volvo Truck, is totally unacceptable. It won't allow us to make any restructuring, redevelopment, recapitalisation of our business to be able to maintain that extra $3000 that we talked about earlier in our costs. This is even recognised to some degree in the draft report. It's saying that it will be very difficult for industry to make that change within that period of time.

Option 2: look, it's certainly better but we don't feel either that really it's going to leave us in any advantaged position whatsoever. We talk about global economies and everything else, but we still feel that Volva Truck in Australia will be disadvantaged globally. I don't think anybody really is interested in option 3, neither the customs area nor us as manufacturing industry, because I think it necessarily doesn't serve any advantage to anybody. You're still going to have the same legislation difficulties and everything else, so there are going to be no cost benefits to anybody there. I guess if we have to take an option, it certainly would be option 4. At least it gives us the opportunity to have at our costs, restructuring and redesigning our business to meet the challenges ahead.

But I must emphasise Volvo's preferred option is none of these, and I think our preferred option is to meet our international commitments. Australia should retain its 5 per cent tariff, at least until there are some signs from our trading partners that they're going to toe the line in reduction of theirs. I guess we would like to ask the commission to consider, if we do adopt the January 2005 proposal, that it is something that is reviewed nearer the date if that's possible, because we feel certain - and I think it was mentioned in the room earlier today - that necessarily our trading partners may stipulate certain targets and everything else but in many other areas have not met those or shown intention to meet those.

I suppose in summary we can't support the recommendation of option 1. We feel, to use Australian terminology from an old pommy, it doesn't give us a fair go, certainly in our business, and as far as we're concerned it will lead to loss of jobs. It will lead to a smaller local industry or a smaller local supply base in Australia to support that industry. It will lead to loss of current and future exports, without any shadow of a doubt. It will increase importation and I guess I'm not 100 per cent sure what that does to our balance of trade and I've not really seen any documentation on that, but maybe it's a - and as far as we're concerned it will lead to a loss of leverage with our trading partners.

So Volvo would like to strongly recommend that the tariffs as a minimum remain in place until January 2005. However, we would like to see situation reviewed in line with our trading partners' commitment to the 2010 accord.

MR COSGROVE: Thanks very much, Gary, for that clear presentation. Yes, Col.

MR DAVEY: I'd just like to highlight a couple of things Gary mentioned and on tariff barriers. In some instances these non-tariff barriers are probably more of a hurdle than the actual tariffs. I'm sure everybody would like to think that those in our organisations and government departments that are handling negotiations with the overseas partners are fully aware and do find out exactly what non-tariff barriers are there. I know in a lot of instances that this is done automatically, but I have heard of the odd instance where after something has been investigated it's been found out that there is some other imposition that places a restriction on dealing with a particular country and then it becomes very awkward. So I think it is most important that all of these aspects of non-tariff barriers be identified as early as possible.

Probably from a customs consultant point of view, the three most asked questions that I get - and they've all been addressed today - one is the commission in the draft report did say that there was a universal view that the 3 per cent concessional rate for the business inputs should be removed. I invariably get asked: is this going to be removed as of 1 July irrespective of what option is adopted? Naturally I tell them that we don't know at this stage, but I take it there's been nothing in recent times to change your view on that 3 per cent?

MR COSGROVE: No, I don't think so. We see that as a piece of policy which should be changed as we've recommended.

MR DAVEY: Right. The second one is, given that our free trade commitments to APEC do take place in 2010 and also the fact that there appears to be little or no monetary incentive for the government on the abolition of the tariffs, the question asked quite regularly is: why is the move being made so early? Is there any single specific reason?

MR COSGROVE: Yes, the main reason was that we assessed for the community as whole - and lest I've not made it clear earlier in the day, that is our task. We're not here conducting an inquiry solely into the effects of reduced tariff assistance for the manufacturing sector, even though the tariffs which we are looking at relate essentially to the manufacturing sector. We're looking at the interests of the Australian community in the broad, and our assessment has been that there are net gains to the Australian community - net, that is, of costs such as the ones that Gary and others have been explaining to us. So our view was, why postpone the receipt of that net gain? That's the essential reason.

MR DAVEY: Okay. The final one that they do ask me is - many of them are aware that the prime objective of the WTO is well known as a free trade regime but, given the performance of some of our major trading partners in various aspects, they ask:

does the WTO have the ability to deliver the goods down the track and enforce the type of rules and regimes that they want? That's obviously a question you guys cannot answer.

MR COSGROVE: No, I guess not but it's certainly a force for good in that direction. I don't think there's any doubt about that. If one looks at the postwar history with the GATT, the predecessor to the WTO, being established after the war, you have seen, partly but not entirely, through multilateral negotiations in the GATT a quite substantial reduction in trade barriers, be they tariffs or non-tariffs, and I have no reason to think that the new organisation is any less well placed to continue that trend. Of course, what is achieved depends on the wishes of the member governments who constitute the WTO, but the general direction of international trade policy, I would have said, remains firmly in the direction of liberalisation, notwithstanding Seattles and Washingtons and other events of recent times.

MR DAVEY: Recent times haven't done anything to help the situation unfortunately.

MR COSGROVE: No, that's true and there were some mistakes made, I think, in the handling of some of those occasions but that's now history.

MR DAVEY: My final comment is in relation to the policy by-laws. You asked the previous people, should it be retained?

MR COSGROVE: Yes.

MR DAVEY: I deal a lot in policy by-laws, as you're aware from my earlier submission. Yes, there are certainly aspects of the policy by-laws which - even the removal of the 3 per cent impost and the retention of a tariff concession scheme - there are still certain elements of the policy by-laws - certainly a lot of it would be eliminated because you would be able to achieve a duty-free importation once you achieved an item 50 concession if the 3 per cent was removed. But there are still elements of made-to-order capital equipment and things like that which are dealt with under various sections of the Customs Act which I'm pretty sure would require some form of policy by-laws administration to be retained if people are to gain maximum benefit out of that area.

MR WOODS: Would it be possible for you, over the next couple of days, to just quickly sketch out your views on that and send them to us?

MR DAVEY: Yes, certainly.

MR WOODS: And just do it from your knowledge and understanding and experience in this field, but to have another perspective as a check for our own analysis would help if - I mean, I'm not talking about a lengthy submission.

MR COSGROVE: A simple fax message would be fine or email, if that suits you.

MR DAVEY: No, that would be quite easily done. I can do that for you. Yes, I'll email it down to the commission.

MR COSGROVE: Thanks very much. Gary, just a couple of questions before we move on. You mentioned this possibility of exporting to Japan. You mentioned also that China was sort of a no-possibility area but I took it that you saw Japan as a realistic possibility. Is that the case or not?

MR SILVERSIDES: Yes, I think it is a realistic opportunity and probably the reason being is on a CBU truck there's no tariff barriers in Japan because they don't necessarily have, I guess, a European-style truck that can compete in their market. So I guess from our perspective it's also a Volvo issue in regard to where do we supply that to and from.

MR COSGROVE: Where they supply from, yes.

MR SILVERSIDES: And whether we can supply it better from Australia than we can from currently Sweden, which is a huge freight cost. So we do see Japan as a potential opportunity but there it becomes very difficult because of the high cost of being able to send a CBU truck into another country.

MR COSGROVE: Could you tell me what the effect on your operations has been of the significant decline in the Australian exchange rate over the past 20 years or thereabouts? Presumably it would have been helping you to combat import competition.

MR SILVERSIDES: Yes. I guess in some respects what you've got to take into consideration is predominantly and still today 70 per cent of our truck is imported components. So I guess at the moment if you want to take the American dollar it's having a negative impact on our business to the tune of probably half a million dollars this year, but I suppose if you take it into the total context of the decline over the last 10 years or whatever, I guess you'd have to say it would help in regard to the potential export and these kind of things, but it is in relative terms to where it's fallen to other currencies.

MR COSGROVE: Well, that's quite a bit.

MR SILVERSIDES: Yes. So I guess it's a difficult one because we also get a fair amount of protection from currency movement from our global organisation in the fact that we do fix our prices with Sweden at the beginning of the year so we don't suffer any currency devaluation from European products. The only area where we suffer from is movement in the US dollar which, as one of the guys was saying earlier today, is an extremely difficult one to sort of monitor, you know. I know we mentioned about 56 going back up to 60 but we've got to remember again down from 68 only six months earlier. So I mean, we're talking about 10 cents fluctuation basically.

MR WOODS: Is the market in Australia at the retail level very competitive?

MR SILVERSIDES: Extremely

MR WOODS: So if the tariff was removed at some point, then you would expect a reasonably full flow-on of the benefits to the consumer base?

MR SILVERSIDES: That's difficult to say. I guess what you could say is the cost of a local-manufactured truck may actually decrease to some degree - or the cost of a truck may decrease to some degree. However, that will be at a cost. It will be a cost of the quality of the product that we're talking about and, you know, without any shadow of a doubt, and it will be a cost of flexibility to the marketplace and whether the marketplace is prepared to handle the lack of flexibility in regard to ADR legislation and everything else. There'll be a cost to the industry of not having local manufacturing without any shadow of a doubt because some of the local suppliers that support some of the CBU companies will probably be forced out of business because of the total volume that we're talking about and that will diminish significantly. So whether the cost of products will go up because the CBU companies will certainly have to import more products as opposed to having local products, I think that will have an effect as well. From a market perspective, I would say there will be an equalisation. I can't see there being a reduction in the total cost of a truck.

MR COSGROVE: What would happen to your capital equipment in the event that you had to close operations? Does it have a sales value in the truck manufacturing market overseas?

MR SILVERSIDES: No, not really. I mean, what we are talking about in capital equipment is a factory, you know, basically which is - and interestingly enough I highlighted it as one of the things to say today and I thought, no, it was inappropriate. The local council basically is going to have to find a tenant for a 73,490-square-metre factory.

MR COSGROVE: So that's it. You don't have much by way of lifting machinery or - - -

MR SILVERSIDES: There's basically forklifts which are all leased, you know, so I guess there's - there's some costs in closing down a factory and it's been estimated at around about $20 million to close down the factory in Australia. So that's going to be taken into account and was it taken into account in the decision last year as to whether it was more profitable to keep the thing running or close it down, and it was marginal, even with a $20 million cost.

MR WOODS: It's certainly been a very useful submission for us to understand that particular market segment. Thank you for that.

MR COSGROVE: You don't have any other questions? Thank you again for your input to our inquiry.

MR SILVERSIDES: Okay. Thank you.

MR COSGROVE: Let me call our next participant which is Kenworth Trucks. Would you please each identify yourselves for the purposes of our transcript recording.

MR COOPER: Sure. My name is Tom Cooper. I'm the customs and traffic manager out at Kenworth Trucks.

MR WALKER: My name is Glen Walker. I'm the operations manager at Kenworth Trucks which puts me in - I guess, responsible for the manufacturing facility, manufacturing, engineering, the materials function, customs and traffic, quality assurance. I've worked for Kenworth for 15 years now. It's a company that I passionately love. It's an industry that I'm very passionate about as well and the company has been very - I have been able to travel Australia. I've had overseas appointments because of my involvement in this industry. It's one that I do appreciate.

I'm going to, I guess, give some AV bits and pieces today. I like to have gadgets in front of me when I present so please bear with me if I change the flow of things a little bit. Just starting the ball rolling, Industry Science Resources produced a publication called State of the Australian Automotive Industry and on page 20 I quote:

> All HCVs -

HCVs are heavy commercial vehicles -

> All heavy commercial vehicles are imported but there is assembly of these vehicles in Australia with varying levels of Australian-made assemblies and components incorporated.

This statement is not correct. Some of the people who have presented today are totally unaware of the fact that trucks are manufactured in Australia by the likes of Volvo, Kenworth and others, albeit a reducing number of them. Kenworth Trucks has been in Australia since 1962 when we first started to fully import the vehicles - - -

MR COSGROVE: Excuse me, Glen, our tape-recording is not picking you up. Could you use the mike near you, either hold it in your hand or sit near it, whatever is better for you.

MR WALKER: Certainly. Well, I won't repeat everything I've just said.

MR COSGROVE: No.

MR WALKER: Kenworth Trucks came to Australia in 1962. Market conditions we thought were appropriate in 1971 to commence local manufacture, whereupon we bought a plot of land in Bayswater in Victoria. We wanted to point out that in the 30 years since then we have continued to invest in plant and equipment at that facility to the point where it now virtually fills the 60-odd acres that we own out there, with 130,000 square feet of factory and a considerable warehousing and parts distribution system just next door.

We in Australia have a great many suppliers, in excess of 300, many of whom are shown here. It's a busy slide and that's intentional, there are so many of them. Included in that list is a very small company called Jenkin Bros Engineers. They are our supplier of the year. Included in our audience are several of Kenworth's suppliers today. Jenkin Bros are a small family-owned company, turn over about $3 million a year. Most of that, a good portion of that, is attributed to Kenworth business. We certainly have a great deal of impact on, I guess, the long-term viability of many of these small companies. I should say our suppliers cover both inventory and non-inventory: the company that makes the desks out at our factory; the company that repairs the leaking pipes and pours the concrete. There are a great many and a large variety of suppliers. In Australia we have almost blanket coverage across the nation in an extensive independently-owned parts and servicing and sales network. We also sell into New Zealand and Papua and New Guinea, somewhere in the order of 150 trucks annually into each of those markets.

Our model range - I guess there's a bit of marketing speak here - we like to think it is the most diverse model range in the world for the most diverse transport industry in the world. Nowhere else is there the depth and breadth and variety of applications and terrain as exists in our humble shores and Kenworth certainly does their best to service as many of those markets as it possibly can.

What I would like to do now, if I may, is just show you two very, very brief videos of the factory at Kenworth just to highlight the local manufacturing and some of the products that we do actually produce there. This one is about engineering at Kenworth.

(Videotape played)

MR WALKER: I can tell by the glazed expressions that we've all seen enough.

MR COSGROVE: Yes. We might have to charge you an advertising fee.

MR WALKER: The point I wanted to get across with those two videos is to show that vehicles are in fact manufactured here in Australia to the requirements that our customers ask us to. A little bit of company background: approximately we have annual sales of $250 million. We have total assets on our books of $111 million. In the last decade the company alone has paid $50 million in taxes. That doesn't include other taxes that are associated with running a business in this country, nor does it include the PAYE taxes that its employees have paid. We have invested over $50 million in the last 10 years as well. We now have 20 pro-engineer cad stations and by value we have a 60 per cent Australian content. Our engines, transmissions and axles are fully imported.

As I've mentioned before, we have over 300 local inventory and non-inventory suppliers and we make $130 million worth of annual purchases from them. Many of them are small companies that depend upon Kenworth for their very existence. We believe this is the Australian automotive industry. For those of you that don't know, the one on the left is a truck and the one on the right is a car. Unfortunately the vehicle on the left is often excluded from automotive industry considerations, looking at the way the industry is considered by government.

Cars and trucks, similarities: first of all, the GST. The automotive industry is the only industry I'm aware of that is funding its own transition policy. Through 2002 the people who buy trucks and cars are not afforded the luxury of rebating the full whack of GST. We are considered part of the automotive industry by, for example, the National Pollutant Inventory. We are also considered part of the automotive industry by customs by-laws, for example the one I list there. In fact Tom is going to be in Canberra tomorrow, talking about some of our customs by-laws and some of the issues we have in the automotive industry. Tom, if you just want to talk for a minute or two about what's happening tomorrow.

MR COOPER: Sure. The problem that we're currently experiencing and the similarities that you see up there between the cars and the trucks relating to that by-law is the fact that there are actually at present, under that by-law, certain car classifications and we're concerned that in some circumstances through this process or even back when the by-law was instigated, that the passenger motor vehicle and heavy commercial vehicle was treated very similar, if not the same, in regards to customs related issues. It looks like at this stage, going by what's happening at the moment, in some circumstances we are and in some circumstances we aren't. So that's a concern that we'd like to raise there.

The other issue is that we have been lobbying the Department of Industry, Science and Resources to review the current by-law that exists because back in 96, when the 3 per cent tariff concession rate was applied, we had some items that we imported that were excluded from that by-law. So what we were trying to do, and what we are still currently trying to do, is to have that tariff concession rate excluded and the items that are currently being imported under the tariff concession should be duty-free under the by-law for us. What we're trying to do is increase our protection from the fully built-up trucks that are coming into the country.

MR WALKER: Looking at the differences, first of all tariffs: the passenger motor vehicle industry is awarded a 15 per cent tariff; the heavy commercial vehicle industry is awarded a 5 per cent tariff. It even extends to industry assistance. Just recently the Industry, Science and Resources again, under the auspices of AUS Industry announced an automotive competitiveness and investment scheme, not a bad deal actually. It encourages further investment in this country. It gives you investment allowances for a whole variety of things, depending upon certain eligibility criteria. Guess what is the eligibility criteria? You must be a car manufacturer or a car supplier. That's not fair.

Also passenger motor vehicles are not included in this particular review, again differentiating the two arms of the automotive industry. It seems whenever there is a difference between cars and trucks, trucks are treated poorly and again that's just not fair. There are two parts to the automotive industry in this country. But perhaps because no-one thinks there is in fact a truck manufacturing industry, maybe that's why this occurs. Doug Cameron, national secretary of the AMWU, was quoted the other day: 60,000 jobs had been lost from Australian manufacturing in the last two years.

MR COSGROVE: Yes. I might say that that's no longer the case. Over the two years to March this year there's actually an increase in Australian manufacturing employment, about 10,000. That statement was true over the two years to June last year.

MR WALKER: Okay. Over 50 per cent of Kenworth's workforce are de facto members of the AMWU through the VBU arm. The draft review of Australia's tariff arrangements showed that over the last 25 years employment trends in the manufacturing sector, or employment levels in the manufacturing sector, have declined by 22 per cent and more specifically in the transport equipment and machinery sector they've declined by 30 per cent whilst in the same period total employment has increased by 49 per cent. I guess it makes you wonder where have all of those jobs gone and perhaps a conclusion could be that much of the manufacturing is now being performed offshore.

MR COSGROVE: Yes, that's part of the story. But I think another important part is the changes in the patterns of expenditure by the Australian community that meant that new jobs have been created predominantly in the services sector.

MR WALKER: That's correct.

MR COSGROVE: Of course the total level of employment in Australia has grown quite strongly over the last 25 years.

MR WALKER: No, that is correct and when you look at the numbers most of the growth has been in the services sector. I would like to repeat comments made by a colleague from an earlier presentation that one has to look at what is the quality of the jobs that has been created. Are they paying the same amount and are they providing the same rewards and personal growth and development that jobs in the manufacturing industry are?

MR COSGROVE: I may be wrong, but I think from a previous inquiry we found that average earnings in the services sector are quite a bit higher than those in manufacturing or agriculture.

MR WALKER: Since 1988 our tariffs have reduced from 18 per cent to 5 per cent, and over that time we've seen some manufacturers, five of them listed there, move if not all of their products certainly significant portions of their product into CBU. The manufacturers down the bottom still contain local operations but not quite as significant as they were 10 to 12 years ago.

There has been some talk, I guess, during the day about how we coped with the 18 per cent to 5 per cent reduction, and indeed the draft report takes, I guess, some credit for improving the efficiency of industries like the truck manufacturing industry. However, there have been two general trends or two occurrences over that last 10-year period. The first and arguably most significant was the 1991 recession. Our company, for example, contracted to a shadow of what it was in 1989. We were producing 8 per cent of the trucks in 91 that we were in 1989. That didn't reduce by 8 per cent; we were producing 8 per cent of 89's volume.

When we came back from that we have been a different organisation. We are leaner and meaner. Each of us I'm sure in this room is working a little harder than they did 10 years ago. Our suppliers, we contracted them a little bit and they have shared a lot of the pain that we have experienced in the last 10 years. Some of them we consolidated. We eliminated them from the supply chain, reduced I guess some non-value added margin along the way. But also when you look around the world I think it's fair to say that output and efficiencies have improved everywhere in the world, and that's been independent of any tariff reductions happening in other countries.

I guess I should also point out some other - you've asked some questions about, we coped with 18 per cent to 5 per cent; why can't we cope with that last 5 per cent? Maybe we can, maybe we can't. I'm not prepared to say at this stage that this would be the straw that broke the camel's back from Kenworth's point of view. It may well be, but I guess if you consider a game of Kerplunk when you have all of the little straws with the marble sitting on top and you pull out a straw at a time, it's pretty easy to pull them out at the start of the game but as you get near the end it's lot more difficult, and usually when that ball falls there are still a few of them left. You never actually get down to zero straws, and maybe 5 per cent is as far as our industry can go in this country.

We, like Volvo, have a lot of I guess standards and performance criteria we have to meet from our parent, not least of which is return on investment, sales growth and so on, and that certainly forms part of the overall decision as to whether Kenworth remains a viable manufacturer, not just in terms of Kenworth Australia but in terms of the global Kenworth organisation.

I want to touch a little bit upon regional security and issues that are happening within the manufacturing sector at this point in time, and I want to quote from the Australian industry involvement manual, which is I guess outsourcing a lot of the core defence functions to industry. I'll just read it for the tape:

> The implementation of indigenous capabilities for the through-life support of major capital equipment acquisition programs is imperative for the national self-reliance of the Australian Defence Force. If the support capabilities are not

> available within Australia, Defence may not be able to undertake the roles necessary to fulfil its function. The Australian industry involvement program is a Defence initiative using the local industrial base to improve national self-reliance for Defence acquisitions and the through-life support of those acquisitions. The industries that provide the capability requirements must have a commitment to Australia and be commercially sustainable to ensure that capabilities such as through-life support can be provided for the life of the acquisition.

On the one hand in government through the defence force I guess we are encouraging local manufacturing and local industries to pick up this defence role, yet on the other hand we seem to be discouraging some of the manufacturing by activities such as what we're engaged in today.

MR COSGROVE: It's partly a question of policy instruments as well. You could meet that objective by means other than maintaining a tariff on imports.

MR WALKER: Correct, as we have seen with the car industry, but we haven't seen that with the truck industry through the Australian automotive competitiveness and investment scheme. I know this is certainly an issue for the likes of Tenix, the shipbuilding firm at Williamstown, our world-class submarine manufacturing facility. You could argue at times of national need - when we went to Dili it was sure handy we had a catamaran manufacturer down in Tasmania. Quoting again from the draft report, we see that:

> Removal of tariffs encourages more imports and leads initially to an increase in the current account deficit. In turn, this is likely to put downward pressure on the nominal exchange rate and some upward pressure on domestic inflation. The result is an increase in the international competitiveness of export and import competing industries generally, encouraging their expansion and also partly offsetting the effects of removal of tariffs on the formerly assisted industries.

I just want to make the point that our exchange rate is subject to many, many more influences than merely tariff reduction alone, and that statement almost implies that government by policy is encouraging a weak Australian dollar. I would sure like them to - - -

MR COSGROVE: No, if I may explain, it's an explanation of the direct effect of a change in tariff policy as a matter of principle on those various items covered in that paragraph. That's not a forecast of what's going to happen to each of those items.

MR WALKER: Sure, but if we're saying reduction in tariffs has brought about a reduction in the exchange rate, which it may well have, I don't hear any government member, past or present, claiming credit for reducing our exchange rate. Certainly when we look at it over the last decade, it has varied up and down quite remarkably over the last 10 years. Certainly you see the Asian crisis along the way there, and of course you see our current issues at the moment which I'm being told at least is because the market doesn't perceive us as being dot com enough and because our interest rates are not competitive with the US.

Turning now to the worldwide tariff arrangement and looking at I guess encouraging exports, it will always be difficult, I would suggest impossible, for Australia, certainly Kenworth in Australia, to export trucks to America. Several reasons: first of all, there's a 25 per cent tariff on our exports into America; and, secondly, all engines, transmissions and axles are manufactured in North America, so by the time you freight them to Australia and freight the truck back again it will always be cheaper to manufacture in America, even if there was a level playing field. However, the Americans have the advantage of being able to sell to Australia with a 5 per cent tariff, and there are some of the American manufacturers down the bottom, Freightliner, Mack and Sterling, who have trucks available in our market.

Again into Europe, we have a 22 per cent tariff protecting their markets over there, and the same deal: if the European manufacturers listed down below chose to build in Europe and import CBU to Australia, they would also only be afforded a 5 per cent tariff. The other thing that's significant as well is that Australia is a right-hand drive country, and that does significantly limit the opportunities we have to export vehicles to left-hand drive countries.

MR COSGROVE: And presumably those who predominantly manufacturer left-hand side drive to export to us.

MR WALKER: The advantage of Europe is they have both, with the UK market being so close, for example.

MR COSGROVE: True.

MR WALKER: It's more of an issue for North America but, that being said, it's not as big a deal for the Europeans. Looking at the tariffs again, ours is 5 per cent, Europe and North America, 22 per cent and 25 per cent. I guess asking the same question that many have asked, where's the argument to reduce those tariffs? I'm not a savvy negotiator, but I know that if I am negotiating I like to have something in my pocket that I can give away when I'm expecting someone else to give something away.

You could argue for some Australian industries, certainly truck manufacture, that maybe other business costs that we have in Australia, the customs duties, payroll tax, workers compensation, land tax, superannuation guarantee, various withholding taxes - maybe a 5 per cent tariff creates a level playing field for us. I don't know what some of those business costs are in North America and some of the European countries, but it would sure be nice to see the research done just to see whether that is an issue or not. So maybe 5 per cent means we're already there.

The Kenworth position today - we'd really like heavy commercial vehicle tariffs to be increased to the passenger motor vehicles. Realising of course that is not a realistic expectation, incorporating us into the automotive industry in Australia, at the very least we'd like to see a retention of the current 5 per cent tariff and do not canvass or don't propose to canvass any reduction timing until we see other people doing the same thing. What we would like is - - -

MR WOODS: Have you done any customer surveys to get a reaction to the top point?

MR WALKER: No, we have not. What we would also like to see is government, Department of Trade, industry, whatever you want to look at, actually considering all of the automotive sector as we move forward and not just passenger motor vehicles. There are two parts of automotive manufacturing here in Australia. We would certainly request that heavy commercial vehicles be included in the general automotive review scheduled for 2005 and hold off everything until then, until we've at least considered the heavy commercial vehicle needs as well. Our Bayswater facility - there it is in close-up. That's the factory, the main building, on the left; office complex in front of you and the parts and warehousing on the right, $111 million sitting right there. It's possible that taking 5 per cent from our margin may mean our parent will say, "You're not getting the returns that we like to see." It's possible that all of these people here - and that's not all 500 people employed at Kenworth but it's a good portion of them - it's possible that they will have the same fate. We would sure like not to see that happen.

MR COSGROVE: What's the annual rate of staff turnover in your company, do you know, Glen?

MR WALKER: It varies greatly depending upon market circumstance. In the factory it can be as high as 30 per cent, it can be as low as 10 per cent depending upon the economic climate. Right now, our factory turnover is zero. Staff is generally a lot lower but, again, it depends on market conditions. I also want to make the point that staff turnover from the factory especially, they don't leave the manufacturing environment and move off into some other industry. They retain their skills as assembly workers or welders or fitters and turners or whatever the case may be, and they often go to some of our suppliers as well when opportunities there arise.

MR COSGROVE: That's your presentation?

MR WALKER: Sorry, that's my dog and pony show, yes.

MR COSGROVE: Thank you. Tom, is there anything - - -

MR COOPER: No, that's all.

MR COSGROVE: No, that's it? Just one point I wanted to make in passing, I don't know that I have any particular questions to you because that was a very informative presentation, but you mentioned - as you were, for example, showing the different rates of tariff applying to passenger motor vehicles and HCVs you used the phrase, "That's not fair." I understand the point you're making and while I don't pretend to understand why it is that difference exists, it's typical of certain patterns of the past and this one continues to exist where there were, as I mentioned earlier today, widely diverging rates of tariff on different items and that makes neither economic sense nor does it help to make people feel that they're being treated fairly. It's not unreasonable that you should make that statement.

But you see, some people during the course of this inquiry have also said to us that they see the 5 per cent tariff as unfair because they don't have any assistance. We've had submissions from the National Farmers Federation, for example, and others. I can't recount them all. Now, the sense of fairness has more than one face. In fact it probably has three. You know, there's the face that you were - two faces really that you were presenting. One is, why have we got a low tariff when PMV has a high tariff, why have we got a 5 per cent tariff when America and Europe and so on has much higher tariffs, and the third face is why have you got a 5 per cent tariff when we've got none. That's the somewhat broadening of the picture that we're trying to assess. But I certainly understand and, you know, accept the points that you've been making on behalf of your company as quite reasonable.

MR WALKER: You asked the question earlier about how quickly would a 5 per cent tariff reduction be passed on to the consumers and what really overall benefit to, I guess, the transport task.

MR COSGROVE: Yes.

MR WALKER: It is a very competitive retail market, the market in which we compete and it is probable that whatever benefits that 5 per cent tariff brings to the purchase price of the vehicle, it is probable that would be passed on relatively quickly. That is not to say there would be any cost benefit to the transport industry, and I say that because the video I tried to show you is that we manufacture our trucks for the local conditions, as does Volvo, and a significant portion of the whole of life cost of the vehicle is its maintenance throughout its life.

This market sells 5000 trucks a year. Globally - or in Europe and North America alone it's about 500,000 trucks. They would be disinclined to build a truck unique for Australia simply on volumes and economies of scale. It is not inconceivable that the trucks would therefore require higher levels of maintenance. They may be suffering higher levels of down time if there's no local manufacturing, there's no local engineering support, there's no local parts support, not to the same extent anyway. It is conceivable that any benefit the transport industry gets from a reduction in purchase price they would pay for in the whole of life cost of the vehicle.

MR WOODS: Does that show up in market share of fully imported units versus yours and other - - -

MR WALKER: It is, I'm sure, just like those videos, we play on the fact that we are Australian made as much as we can, that we tailor-make it to the requirements and so on as much as we can and that is how we endeavour to justify the extra purchase price that the customer does pay for a locally produced product. I guess the proof is in the pudding. If it didn't turn out to be true they wouldn't buy another one of our trucks, and fortunately many of them do.

MR COSGROVE: But the market share of locally manufactured HCVs is falling.

MR WALKER: Is declining, yes, that's correct.

MR COSGROVE: So does that mean that the people, your customers or customers in the industry generally who are choosing to purchase these imported trucks which, as you say, might have higher whole-of-life costs are making a miscalculation, or are they content? It's a trend that's been going for some time, I assume.

MR WALKER: Well, that's a difficult question to answer because I wouldn't want to second-guess the customer's reasons for choosing an imported product versus a local product. It would be our contention that in many of the applications in Australia we would like to think, and this is how we market our product, that over the whole of life they do get a benefit. Some customers may choose to not believe us and, you know, who are we to say we're right and they're wrong but they might be right and we might be wrong.

MR COSGROVE: But I would hope that you have a pretty intimate knowledge of this market. Are you aware of purchasers of trucks who come along to you and say, "Look, I bought that rotten imported thing five years ago and now it's costing me an arm and a leg to maintain. I wish I had bought a Kenworth truck."

MR WALKER: That does happen, yes.

MR COSGROVE: But still not on a scale sufficient, as yet at least, to reverse the trend in the market shares.

MR WALKER: I guess that would be correct, yes. Across the industry those of us that remain local manufacturers, our market share is declining. There might be winners and losers within the manufacturers in that sector but across that sector we are declining, yes.

MR COSGROVE: Well, thank you both very much for, as I say, a quite comprehensive addition to our understanding of your operations, thank you.

MR WALKER: Thank you.

MR COSGROVE: Our final participant today is INC Corporation. Michael Coates, I take it?

MR COATES: That's right.

MR COSGROVE: Michael, you're the managing director of the INC Corporation. Is that right?

MR COATES: Yes, managing director for 23 years.

MR COSGROVE: Thank you. We're grateful to you for the submission you've provided to us very recently. What would you like to say to us today?

MR COATES: It was suggested that I might like to perhaps elaborate on some of the things in my submission. Not being familiar really with the way these things are conducted, I'm not exactly sure how to do that but I did raise a number of points and - perhaps if I just go through them, other things will come up. It's quite interesting that other people presenting here today, particularly Glen there from Kenworth trucks, were obviously thinking along fairly similar lines, I guess.

MR COSGROVE: Yes.

MR COATES: The fact that we're a Kenworth supplier shouldn't be held against us in that regard because really up until I received notification about this hearing from Glen on Thursday, really there had been very little discussion on this. Normally I would ignore this and get on with business except that this worries me. I guess the reason it worries me is we've been in business for 23 years. When we started our business two years out of engineering, we looked at a market which could sustain a very large business and over the 23 years that we have been in business, the market potential that we could supply to has reduced by 75 per cent.

MR COSGROVE: Are you talking here about the domestic market in Australia?

MR COATES: The domestic market potential. I guess a large thrust of my submission to you is essentially that without a strong domestic market you won't build exporters; without exports you've got a trade balance problem; if you've got a trade balance problem your currency goes down. It seems to me that there's plenty of reasons why it's a good idea to reduce tariffs. We pay tariffs at INC. We import. We used to import duty-free, then the 3 per cent was put on. That increased our costs. I'd prefer to pay tariffs than to lose my customers, because without customers like Kenworth trucks or Iveco our business loses 15 per cent of its volume. If we lose 15 per cent of our volume we can make it up. We'll make it up in the passenger motor vehicle industry because there's a lot of incentive with the ASIS program, and we supply the automotive industry. We'll pick up on the ASIS program. We supply the textile industry and we'll pick up on the textiles SIP as well. There's incentive to do that.

But the way things currently stand the passenger motor vehicle industry and the textiles industry have been singled out for government incentive, put it that way. That incentive everybody seems to think is reasonable and perhaps it's because of the size of those industries. The automotive industry is a reasonably large industry but it was twice the size once. The textile industry is a large industry but it was more than twice the size once. But we consider it reasonable to provide a high degree of tariff protection plus government incentive for investment in those industries.

The Australian automotive industry is extremely competitive on world terms. It's much cheaper to make automotive components in Australia than it is in Europe or Japan and even cheaper than in the USA. So you ask yourself why. It's because we've got a very strong engineering base. We've got a good skilled workforce and we've got some volume there, not a lot of volume but sufficient volume that the cost of production is low enough.

Now, how to you get that production volume? The production volume in the Australian market has only been generated by tariff protection over the years. If there hadn't been tariff protection, would we have had the FJ Holden? Probably not, and okay, so we're steadily whittling that tariff barrier away whilst we build the industry up. But how much do we whittle the tariff barrier away while we do little to build other industries up? It just doesn't seem to make sense, and industry requires a certain volume of market share to build its own strength. Without that strength it won't export and all you can see is that the Australian trade balance is going to get worse. It will drive the dollar down, which will only make the trade balance worse again.

So the truck manufacturing sector is reasonably important to INC but it's not our livelihood. We could live without it, but it would be mighty tough. How did we get to where we are now - Kenworth Trucks. Kenworth Trucks was our first big customer. That was after the closure of - no, they weren't closed at that stage, but we had a hit list of 20 customers to do business with. Kenworth Trucks was on that list and we got their business. International Harvester, we got their business. We still have it too with the trucks. On the same list we had Massey-Ferguson for tractors, gone; International Harvester for tractors, gone; John Deere for tractors, gone. I can probably think of a few more.

In the construction equipment market we had Hanishvager for heavy cranes and mining equipment, gone. We had Clark Equipment, gone. We had J.R. Case, gone. They're all gone. We had forklift truck manufacturers. Basically they're all gone too. We looked at all of these things disappearing over the years but the two constants for us have been Kenworth Trucks and Iveco. Without those, our business wouldn't exist. Now, we've built a very useful business for ourselves and for our employees, 45 of them, around that business of Kenworth Trucks and Iveco. Is it fair to jeopardise the potential growth of small businesses like ours that can grow into something much more substantial by making life tougher?

You've got a very competitive truck manufacturing industry in Australia if it can survive at 5 per cent tariffs. We supply components to Kenworth Trucks at the same

prices we supplied in the 1980s. We've achieved that because we've significantly invested in our plant and equipment. We've diversified into much bigger markets and we're much more effective and we operate at best practice. We're ISO 9001, we're QS 9000, you name it. How much more can we increase our efficiency? Probably another 5 per cent. Now, you know, it's a given that you have to keep improving your efficiency. But they're going to be doing that overseas at a much faster rate than we are. They've got the volume.

MR COSGROVE: Why should that be the case?

MR COATES: They've got the volume that justifies it. You can justify your capital expenditure. You can justify your domestic market, because you can protect your domestic market. Do we? Not really.

MR COSGROVE: Is it the need for a protected domestic market or a large domestic market that enables you to invest?

MR COATES: Which comes first? Is it the chicken or the egg? When you look at Europe or the USA with 22 to 25 per cent protection on their massive domestic markets what have they got to fear from us? Absolutely nothing. What have we got to fear from them? 99 per cent of the trucks in the world are made there and 1 per cent are made here, and it's the same not just with trucks but with anything. Anyway the point that I really want to make is that we open up our markets, nobody else is opening up their markets. There are benefits in reducing tariffs, I've got no doubt. We'd be reducing our input costs already. But at the same time the same opportunities aren't allowed to manufacturers in Australia and I just don't quite understand why we think that we know better than the rest of the world It's a great theory, this, but it isn't working. It's as simple as that, as far as I'm concerned.

How small can a business be to be world competitive? That's what I want to know. Our business could have been three times the size, four times the size, but it's not. We turn over about $10 million a year and in five years' time, irrespective of what you do here today or over the next 12 months, will be about a $20 million business. But it started because the opportunity was there, because the manufacturing industry was there to build a business on. Now, you say that concessional import duty arrangements add to the cost of business.

I've said we already pay our tariffs. At the same time, although we've probably wasted our time, we also obtained tariff concessions and we were bringing things in duty-free where there's no local manufacturer. We do all of that ourselves. We don't employ a customs agent. It's not that hard and in fact the Australian Customs Service are pretty useful in helping you do it; part of the agreement I guess. It's just tedious. It's not going to save much money to get rid of that tariff concession arrangement. It's not a big cost to our business.

MR COSGROVE: It wouldn't save much of your staff's time.

MR COATES: No, absolutely not. But the bigger cost to our business is the 3 per cent the government whacked on a few years back as a revenue raiser, and I just wonder if we reduce the tariffs and manufacturing industry shrinks a little bit further - and I'll come to that later - are we going to be seeing a tariff put back on because the government has lost the revenue because it has lost the tax base? Who knows. I mean, all these things go around in a full circle and what's theory today, what's fashionable theory today, is unfashionable next year. It just seems to me that this very fashionable theory of the scorched earth policy or the flat earth policy or level playing field - it's not level.

The world doesn't care about Australia. We're non-existent: 1 per cent of truck manufacturing. 99 per cent of trucks in the world are made somewhere else and they can send them here, 5 per cent or maybe zero per cent, and we can't do the same; they don't care. So will it increase or strengthen our position in international trade negotiations? The only thing I'd ask you is how successful have you been in convincing European farmers to give up their tariff protection?

MR COSGROVE: There was certainly some success in the Uruguay round.

MR COATES: A little bit of success.

MR COSGROVE: Not as much as we would like, but - - -

MR COATES: No, and it won't be enough next time or the time after, or the time after.

MR COSGROVE: No - coming from a long way back, yes.

MR COATES: We manufacture a range of waterproof breathable fabrics called Aerotex. You may have read recently in the newspapers or heard on the ABC that the defence forces are now equipped with new combat rain-wear manufactured from our fabric. The development of that fabric took eight years and cost us $2 million to develop it. We're pretty pleased with the result and so is the Australian army because they buy a product for half the price they paid for Gortex and it works just as well. so we went to Techtextil in the United States in March. We thought, "This is a great ideal. We'll put our Aerotex on display here," and we had the combat rain-wear up there and all the rest of it. We thought there's sure to be somebody there who says, "Can't we use this in America at half the price?"

The answer is no, they can't use it in America. Defence purchasing policy says, even down to the fibre in the fabric, it's made in the USA full stop - level playing field, no way. We can supply that fabric into Malaysia, Singapore, Thailand etcetera, if they ever get around to spending some money on the people that they employ in their armed forces. They don't have enough money to spend at the moment. We will export that fabric to those sort of countries in due course. We've had to compete on a level playing field. Gortex comes into Australia duty-free, or even at 5 per cent tariff, who cares? I don't care.

We're half the price and we're much higher performance. But we can't match that big company in what they do so well. They market that product brilliantly. So we can only have defence business and in every other market they will eat us alive at double the price because they've got the skill in the marketing that says, "I want a Gortex jacket." Nobody even knows who made the jacket. It's like Hoover perhaps in the UK for vacuum cleaners.

MR COSGROVE: One of our participants earlier today was emphasising the importance of marketing a good product and it was seen to be an area of activity which he felt Australians were not especially good at.

MR COATES: I'd agree, and there's a good reason for it. You could say to us - - -

MR COSGROVE: Yes, more to profitability and the manufacturing sector than efficient production, in other words.

MR COATES: Most definitely. But where do you get the sufficient clout for marketing so well? You get it from volume. You get it from the profits that volumes generate. We'll never compete with Gortex on the world market. There's a $1 billion market worldwide for waterproof breathable fabrics. If we can get 1 per cent that will make us reasonably happy - and we can't get more. It's just not possible because we can't do the marketing because we don't have the strength. How would you take on Dupont with the brand Lycra? It's just not on. You've got to have power. You've got to have strength to have these trade names, that people walk in and say, "I want Gortex."

MR COSGROVE: Yes. I mean, if you're talking about today and tomorrow I'd have to agree with you. But if you think of the products, the highly successful branded products which we see in stores now, which were not there 10 years ago, how did they do it? You know, you've got the Nikes and Reeboks and so on. If you think of the Australian market, and I guess it was true of some other overseas markets, they weren't there. It was, you know, Slazenger or Dunlop or somebody, who had spent decades developing their own brand images and market shares within the space of, I suppose, a decade or perhaps a little more. Who hears about Slazenger and Dunlop these days?

MR COATES: I agree.

MR COSGROVE: It's about, as I say, Nikes and Reeboks. So it can be done, in other words.

MR COATES: Yes, but you've got to ask yourself the question: where do Nike and Reebok come from? The land of the free. They've got a market 20 to 25 times the size of ours and you can build brand awareness in a market like that. You can't build brand awareness in Australia, not globally recognised brand awareness.

MR COSGROVE: Why should you restrict your sites to Australia?

MR COATES: If you aren't successful in your domestic market you will never be successful in the export market as a manufacturer, it's as simple as that. That's one of the points that I make.

MR COSGROVE: How about Swiss watches?

MR COATES: Very successful in the domestic market, I would suggest.

MR COSGROVE: A much smaller domestic market than Australia.

MR COATES: Yes, and they've got a sustainable competitive advantage. They started the business, didn't they?

MR COSGROVE: Yes, but the Japanese have made significant incursions, for example. There may be others. I'm not an expert in that market, but all I'm saying is that there are examples I think of successful global sales strategies which have come from very small domestic bases.

MR COATES: Not many from Australia.

MR COSGROVE: You don't have to be in the United States to become a successful international seller.

MR COATES: No, I'd agree and there are local examples, perhaps more in New Zealand.

MR COSGROVE: There are some there, yes.

MR COATES: Perhaps they're slightly better marketers than we are, but Fisher and Paykel are very well known. On the other hand, one of our other customers, Email with their Dishlex dishwashers, will be exporting dishwashers to the United States in roughly equal proportions to what they manufacture here. It can be done, but why do Dishlex have the capability to do that? They basically own the Australian market. They are very strong in the Australian market. The Simpson dishwasher was always an also-ran and so Email took over Vulcan's Dishlex. They bought themselves a business that made a good dishwasher. They can build a stronger business from that. But it comes from the domestic volume. You can't build a globally competitive product unless you have sufficient market share at home. It's just not possible.

MR COSGROVE: We might have to disagree on that, I think. In fact I think it's almost - - -

MR COATES: I could probably produce a lot more examples of that.

MR COSGROVE: It's almost a rule of economic activity that the smaller the country, more likely it is, if it is to be successful, it will be in export markets, almost by definition.

MR COATES: I don't disagree with that, but I don't think it disproves what I was saying.

MR COSGROVE: Except it seems to me to be the opposite to saying that if you're in a big country like the United States, because you have a big domestic market you'll be a good exporter. In fact statistics show that's not the case. The United States exports a smaller proportion of its output than does Australia or most other small countries. Now, they have a big domestic market, it's true, but it's because of that that they are not ordinarily so significant in export markets.

MR COATES: Perhaps I could turn that around to suggest that they're therefore more resistant to imports into the United States because of that strength in their domestic market.

MR COSGROVE: In the case of some industries, undoubtedly, yes.

MR COATES: I think it goes both ways.

MR COSGROVE: It's a pretty open market though generally.

MR COATES: Reasonably, except for us in the defence market.

MR COSGROVE: Yes.

MR COATES: So you also suggested that - and I'll quote you here:

> The substantial improvements in competitiveness brought about the decline in Australia's exchange rate -

the rest is not a quote - basically excuse the adjustment to reduce tariffs because of the offset in costs. Glen mentioned the fact that the Australian exchange rate is affected by many factors, but why is our current exchange rate so low? Currency markets don't respect our currency full stop. We're a plaything for 24-year-olds in jeans in New York or wherever, but we have got a very boring old economy. We rely on farm trade, a bit of manufacturing, and where is our new economy, the dot com stuff that's supposed to save the world? Well, nobody thinks that we have got any chance to expand our economy through technology, and what drives technology? It depends. If it's just hardware and software that's okay, you can create a business overnight, float it for millions of dollars on the Stock Exchange and fiddle around with a few computers in your office, but in manufacturing you make a solid investment. You employ people.

When I go overseas people ask me, "Why do you people in Australia want to be the first to drop the tariffs?" I've got no answer. They just wonder how we're going to build new industries to replace the ones we lose. When I look at the history of our business over the last 23 years, nobody has replaced 75 per cent of the market that I saw. Okay, you can say, "Well, we're in a sunset industry." No way. We've got leading edge technology. If we were in the United States we could be easily 20 times our size, but we're in Australia. Our domestic market isn't sufficient to make us strong enough to export. That's the simple matter of fact. The market could have been there except for the way we went about reducing tariffs with no industry policy, no employment policy, to go with it. You can't look at this in isolation.

The other reason the currency is vulnerable is because we've got these trade deficit situations. Okay, you say this is good, it increases our competitiveness, but every time the dollar goes down the cost of imports goes up. Okay, it makes us more competitive.

MR COSGROVE: So does the value of exports.

MR COATES: The value of exports goes up, but the fact is that we're well behind the eight ball, and as tariffs come down and as imports go up perhaps as the exchange rate comes down, won't the exchange rate just go lower?

MR COSGROVE: I think there's a bit of a misconception there. If you think back to the mid to late 1980s before the recent program of tariff reductions was begun, the program which brought tariffs from, I guess, levels maybe in some cases 50 or 60 per cent, but certainly 20s and 30s, down to the present five, Australia's balance of payments position was in much worse shape than it is now; no doubt about that. We had a current account deficit at that time of the order of 6 per cent of GDP. We had an external debt servicing ratio of approximately 20 per cent. Now our current account deficit is below 5 per cent, heading, I believe, in the government's latest forecast, to 4 and a half or thereabouts. Our debt servicing ratio is 10 per cent. Our economy has been one of the fastest growing economies in the world over the last seven or eight years. Our productivity performance is among the highest in the world. Our employment after the recession of the 90s has increased considerably.

The unemployment rate is now lower than it has been for 10 years. I mean, what has the reduction in tariff done that is harmful in that context? It has certainly changed the structure of Australian production, as you would expect. It has resulted to some extent in the reduction in the size of the manufacturing sector. It has shifted the pattern of manufacturing industry, because what were previously rather diverse levels of tariff assistance have been made more uniform, so the industries which had high tariff assistance have tended to lose ground and those which have had smaller reductions in assistance relative to the high ones have gained a little. The services sector has expanded substantially because that's what consumers want to buy these days. You know, you only need one refrigerator every 10 years, whereas you might want to take a vacation two or three times a year.

Higher incomes and technological progress are big drivers of those structural changes. What the tariff reductions have done essentially, apart from those industry compositional effects that I referred to, is to play some part in increasing the productivity of the Australian economy, and of course especially of the manufacturing sector, and to improve the real purchasing power of Australian consumers.

MR COATES: And I don't disagree with any of that. I can't quote the statistics. I'm not familiar with them. They're fantastic. The problem is how much more manufacturing can you afford to lose or how much more manufacturing - - -

MR COSGROVE: The problem is we're not losing manufacturing. Manufacturing is growing.

MR COATES: You might say so. Manufacturing is growing perhaps in certain areas and dying in others.

MR COSGROVE: Yes.

MR COATES: Okay. Does that mean therefore that we get rid of the manufacturing that's not growing? Does it mean that that manufacturing is not competitive? That's not true. All it means is that the manufacturing that we have got - let's take the truck example because it's very current. It's very competitive because it's operating in, let's call it, an open market against all these people from all over the world who protect their markets. 99 per cent of trucks are manufactured behind a tariff barrier, 1 per cent aren't, and yet we're very efficient at it.

MR COSGROVE: Yes.

MR COATES: Pretty good, I reckon, pretty good, and yet we don't have the opportunity - I would love Kenworth to export trucks. I keep asking them, "When are you going to export some trucks?" They say, "Forget it." I can't increase my business volume with Kenworth Trucks unless they do. It's as simple as that. Their business has not increased in value to us over the last five years, 10 years maybe.

MR WOODS: Presumably therefore you look for diversification of your market - - -

MR COATES: Absolutely.

MR WOODS: - - - which is part of that structural shift that we were discussing.

MR COATES: Part of the structural shift?

MR WOODS: I mean, that's the nature of it. You seek out where you're most efficient and pursue those market opportunities, and that's entirely sensible.

MR COATES: But it's mighty hard work. It sounds simple: "Oh, yes, just look for something else."

MR WOODS: No, no, I'm not - - -

MR COSGROVE: It takes time.

MR WOODS: The word "simple" never appeared but the action that you're taking demonstrates the principle that you're assuming where you're efficient.

MR COATES: I guess the point that I'm making with that is that we built a business on that. Kenworth was our first big customer. They pay well, they drove our quality systems, they drove the whole shooting match, so that we built a business which could survive without Kenworth now. I wouldn't want it to, but you need those building blocks, okay, and without those building blocks you don't build competitive industries that can do something useful. Anyway, let's not get stuck on that.

MR COSGROVE: Yes, I understand what you're saying, Michael, but you always need to bear in mind as well that because a building block is actually there, you know, you're dealing with it now, doesn't mean that, if it were not there, there would be no other building block.

MR COATES: There would be different types, yes, sure.

MR COSGROVE: Yes. I'm not here wanting to say that I want to see Kenworth go to the wall. I obviously don't, but it's easy to see what's already there. It's not easy to see what might be there if relative price signals and other policy levers were somewhat different.

MR COATES: Yes, but I think we would have more cottage industries. All the big industries in Australia are foreign-owned, and why are they here? The motor vehicle industry is here because of tariff protection - that fundamentally. Kenworth came here because of tariff protection, and probably Volvo as well. They might leave here because of the loss of tariff protection.

MR COSGROVE: And the Australian community on the whole is the poorer for that because - - -

MR COATES: What, the poorer for the tariff protection?

MR COSGROVE: Yes, we pay much more of our disposal income for those items than we need to.

MR COATES: I would disagree with that. Go to Germany and buy a car for $30,000. You can't. Well, you can if you buy a little car. Buy a car the size of a Holden. Make a Holden in Germany for $50,000. That's what it would be on the market. That's the difference.

MR COSGROVE: But equally I could - I know, I lived in the United States and, believe, me I saved a lot of money on car purchases.

MR COATES: Yes, but they don't have all the luxury car taxes and all the other taxes. They have a wonderful state tax of 2 to 7 per cent and that's it, and that's what's included in the advertised price.

MR COSGROVE: It's true, the sales taxes are a significant factor. I would agree with that.

MR COATES: If we got rid of all the taxes and things on top of cars we would be as good as any other market in the world, and if we had 6 million cars a year to make like developing countries such as Korea are developing - who's developing? We still think we can live off the sheep's back. We're not developing.

MR COSGROVE: Well, I don't know. I think I would have to disagree.

MR COATES: We rely on farm trade. We dig holes in the ground and we ship out bucket loads of ore.

MR COSGROVE: What do you think is the fastest growing sector of Australian exports over the last 10 years?

MR COATES: I don't know.

MR COSGROVE: Manufacturers.

MR COATES: Okay, yes, and that's because of Holden Engine Co?

MR COSGROVE: Partly.

MR COATES: Toyota Motor Co?

MR COSGROVE: Yes, in part, but many things.

MR COATES: And also Holden Automotive.

MR COSGROVE: It's across the range.

MR COATES: Yes, but that's a large part. Who's the biggest exporter of manufactured goods? Holden.

MR COSGROVE: Okay.

MR COATES: Would they be here but for the protection of tariffs that started the business off?

MR COSGROVE: Probably not, no.

MR COATES: So you wouldn't have that. Would Toyota be here?

MR COSGROVE: Who knows, you might have had some other parts of manufacturing who would have emerged.

MR COATES: Maybe not. Would Toyota be here? They wouldn't be here.

MR COSGROVE: Anyway, this is a rather general discourse which I think began from what we had to say about the exchange rate. I mean, you wouldn't disagree, would you, that a low exchange rate provides assistance to Australian producers competing with foreign production?

MR COATES: I couldn't argue against that.

MR COSGROVE: That's all we were trying to say in the draft report. We may not have said it clearly enough but - - -

MR COATES: The other thing that you say is that there is a further .5 per cent unemployment as a consequence of this. Well, it's a pretty easy number, .5.

MR COSGROVE: No, we don't say that. If you're thinking about manufacturing, that might be the case. Our view is that - - -

MR COATES: I think that was stated in the press release.

MR COSGROVE: No, we have done this analysis on the basis that - press release, I have that here.

MR COATES: It says - - -

MR COSGROVE: I mean, our belief and the basis - - -

MR COATES: Here we go. It says:

> In all the 57 regions examined, the estimated employment effects are small. The largest increases and decreases are no more than .5 per cent and would occur in the context of a generally rising trend.

MR COSGROVE: Yes, and over the country as a whole they aggregate to zero, no change in employment.

MR COATES: But can you guarantee it, or is it just an economist's model? They don't work very well.

MR COSGROVE: Well, yes, it's something that economists after centuries of study have come to conclude - - -

MR COATES: Yes, and ask 10 economists to predict next year's deficit and they'll all be at opposite ends of the spectrum. Economists - it's not a science.

MR COSGROVE: We could say that about a lot of professions. No, I mean, if you think of the effect of a tariff, it's to change the pattern of production. The reason for that is that the tariff is not paid by someone outside the Australian economy. If you have a tariff on your product and you sell it to me, I'm the person who pays for that tariff, so I have less money to spend on other things because I'm paying to the government the tariff to keep your company more profitable.

MR COATES: You're not really. You're paying 3 per cent at the moment to keep the government more profitable.

MR COSGROVE: I said I'm paying the government. So all we're doing is shuffling the pack. The tariff gives a bit of assistance here, takes away from the spending power there. If you look at it - I think this is - - -

MR COATES: The theory sounds fundamentally sound but - perhaps I misread you here - it seemed to me that you were saying, "Well, what's half a per cent unemployment given that employment is rising anyway?" But perhaps I misunderstood you.

MR COSGROVE: Well, no, I think that's fair. We were saying that for those regions, and industries, where employment is estimated to fall or rise, in the context, in almost all of those cases - not all but in the great majority of them - those small changes, never more than .05 per cent according to our estimates, which you can argue about, would be taking place in the context of a rising trend in employment. Now, that is a fact. That is what we have. There's no debate about the rising trend in employment. Sure, we didn't have it in the early 90s but that was because of big policy mistakes in the late 1980s.

MR COATES: This isn't one?

MR COSGROVE: I beg your pardon?

MR COATES: This isn't a policy mistake? You don't think so, obviously.

MR COSGROVE: No, I don't. Well, at least let me say this: that I have confidence in the fact that there will be no significant effect on the total level of employment in this country, at least if you look over a period of two, maybe three years from the policy change. There will be some adjustment taking place.

MR COATES: Structure or readjustment.

MR COSGROVE: Sure, and we have tried to address that. But anyone who thinks that a change in tariff policy, whether it's upwards, raising tariffs or reducing them, is going to change the aggregate level of employment in this country, I'm afraid is mistaken and there's plenty of evidence to that effect.

MR COATES: I guess the thing that I question is that everybody thinks, "Oh, you know, this dot com stuff is going to create jobs, or maybe everybody is going to work as a cleaner or an ironing person or what have you and maybe they do earn more money than in manufacturing," although I can tell you our cleaner doesn't earn as much as our factory people.

MR COSGROVE: It's not the cleaners or the ironing ladies, it's the people advising us on how to invest our increased incomes.

MR COATES: How to overcome tariff reductions.

MR COSGROVE: Well, that too, yes.

MR COATES: But the thing is, this new economy, it doesn't exist in Australia. If we don't keep a little bit of the old economy going what's going to happen? Look, sure, there's new economy here. I mean, you can say computer share - new economy.

MR COSGROVE: I would have thought - I'm sorry to interrupt again, but it seems to me that it is the old economy which is benefiting from the new economy and if you remember - I don't know whether you were here at the time, but the video program which Kenworth showed us - - -

MR COATES: Yes, I was here for that.

MR COSGROVE: - - - was a clear demonstration of that. These people have been able to achieve significant improvements in productivity by using things like computer assisted design and manufacture.

MR COATES: But that's the point, isn't it?

MR COSGROVE: Beg your pardon?

MR COATES: Kenworth exists as a customer for the new economy because it's old economy.

MR COSGROVE: Yes.

MR WOODS: It's benefiting from the new economy.

MR COATES: So my argument would be that if you don't create diversity then you've got a serious problem. We've got farms, we've got holes in the ground all over Western Australia. We've got a bit of a manufacturing industry which is a leading exporter, growing at a faster rate than anything else and we've got very little of the new economy. Well, that's not quite right. You've got Blue Gum up there in Wangaratta took over from IBM. They're building a few computers and printers and things and they're very hopeful they'll build up a strong manufacturing business there, and that's fine.

You've got computer share setting the share markets on fire with new economy stuff but they don't actually make much money. Look at amazon.com. Today they're saying they've got 12 months before they fold. The new economy is not going to generate much money. What it is, it's a plaything for stockbrokers.

MR COSGROVE: That's something that the market will work out.

MR COATES: It will, but there will be a lot to fall out from that. So anyway, look, my point - - -

MR COSGROVE: As there always has been.

MR COATES: My point here is that tariff policy is fine. I'm in favour of reducing tariffs to zip as long as we've got a substantial domestic base. I don't want to be paying tariffs for the products that I import. I used to bring them in duty-free. Now I pay 3 per cent. I'd like to be putting much higher tariffs on some of the products I compete against. Okay, I'm happy to play on a level playing field. But my business only exists because there is an industry in Australia that can buy products from me. I can't export my products unless I can be successful in the Australian market. I've just spent $2 million putting together a state of the art, world-first, UV curing, pressure sensitive, adhesive coating system. It's the biggest of its kind in the world.

Our business plan says: succeed domestically, then export. Our target market is automotive. We'll pick up something from ASIS, that's fine. If I didn't have that domestic market to sell to, I couldn't then have the ambition of exporting 90 per cent of the production of this equipment in five years' time. It would just not happen. And yet our supplier from Switzerland for our raw material holds sales meetings in Europe, United States, and they get up there saying, "This little company in Australia is doing this wonderful thing, you know, and they're the only people who have made industrial specialty tapes out of these raw materials of ours." We're doing it because we have a local market. No local market, no product, simple as that - no export.

So I think that you've got to be realistic about this. The government are hopeless, full stop. They've got no industry policy. You're doing this thing on tariffs, to some extent removed from the government perhaps. You've got the farmers, fine. They're arguing over whether they can ship milk from here to Western Australia, they're hopeless. The reality of it is, there is no concerted, cohesive view of the whole situation. I think that should be your role: put the cohesive view together. Now, there are going to be savings, there's no doubt, and there will be losses as well. But what losses are you creating for the future by not giving business an opportunity to come to a country to invest?

Our business wouldn't be here if Kenworth wasn't here. Well, we might be. We'd be still laminating on our lounge room floor I suppose. It's just not going to happen. Every other country is protecting their industries and we're not, and we think that we can be smart and be the first and have some advantage in negotiations on the world trade level, where they don't really care about us. They're worried about our farm exports, sure, because we can produce things cheaper while our farmers go broke. It doesn't seem to make sense to me - I might be a bit simple. But it just seems dopey, you know. Quite simply, integrate it with industry policy that promotes domestic business first and it all makes sense. Integrate it with something which says, "You can ship to me at zero rate if I can ship to you," makes sense. Put it on its own, you're making life tough.

MR COSGROVE: Okay. Thanks, Michael, for a very vigorous discussion. I think the points that I had marked on the submission you sent to us we have already discussed pretty thoroughly. So I don't think I need to detain you any longer, Michael.

MR WOODS: No, I have nothing.

MR COSGROVE: No, okay, thanks very much.

MR COATES: Unfashionable views perhaps, but there's a few of us with those.

MR COSGROVE: Thank you very much for coming along. We're still prepared to have them. That concludes our hearing for today. We'll resume in Sydney tomorrow morning.

AT 5.34 PM THE INQUIRY WAS ADJOURNED UNTIL
THURSDAY, 29 JUNE 2000

INDEX